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# MONTANA

## Legislative Budget Analysis 2009 Biennium

### Volume 2—Revenue Estimates

As Adopted by the Revenue and Transportation Interim Committee



January 2007

Legislative  
Fiscal Division



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# Legislative Budget Analysis

## 2009 Biennium



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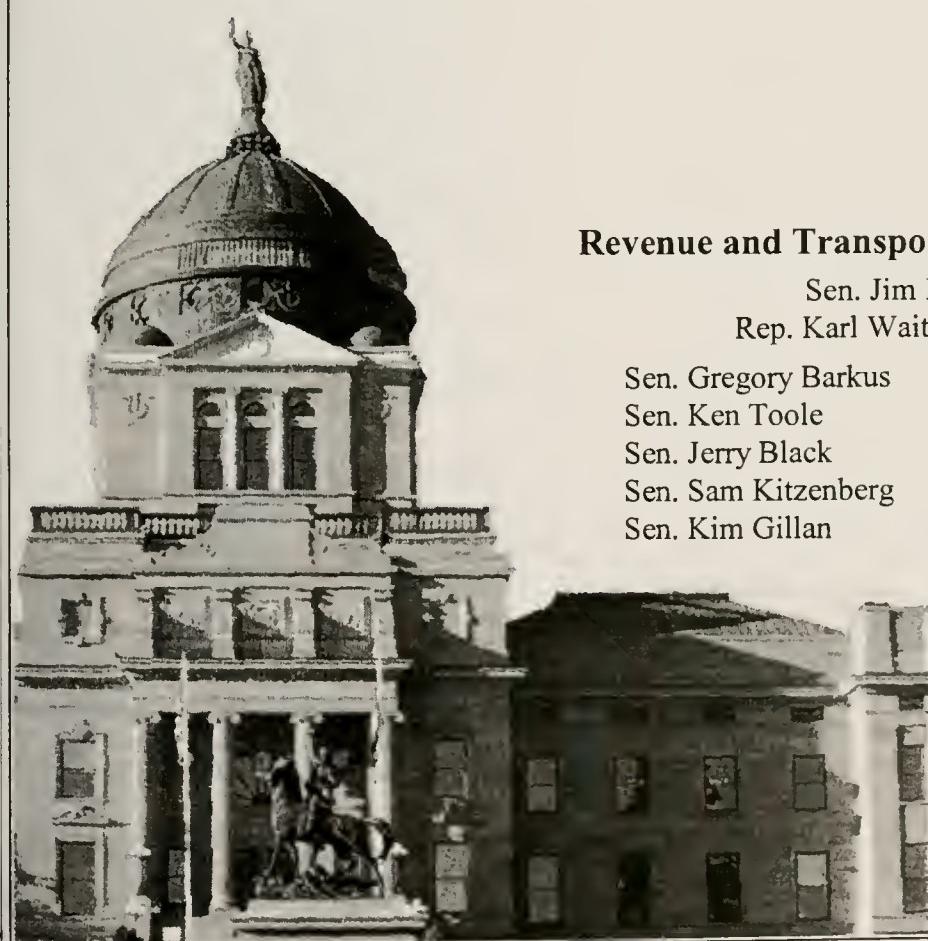
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# Revenue Estimates

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# Introduction

## How to Use This Report

The following report is arranged into six main revenue sections. Each section contains revenue sources that share common characteristics, have many of the same assumptions, and have common estimating methodologies. The six main sections are:

1. Business Taxes
2. Natural Resource Taxes
3. Interest Earnings
4. Consumption
5. Property Taxes
6. Other General Fund Revenue

The sections are marked by divider pages that list each revenue source within that section. The sources are arranged alphabetically within each section.

The report contains profiles of each revenue source estimated by the Revenue and Transportation Interim Committee (RTIC). Twelve categories of information are provided for each source. These categories and a short description of each follow:

**Revenue Description:** A brief description of the source is provided including the origin of the revenue and, in the case of taxes and fees, the item that is taxed.

**Statutory Reference:** These are the citations from the Montana Code Annotated (MCA) applicable to the revenue source and include citations for the tax rate, the distribution, and when the tax is due.

**Applicable Tax Rate(s):** This section provides an explanation of the tax rate or license fee, more detail on the items that are taxed, and other information such as exemptions, minimums, initial versus annual fees, etc.

**Distribution:** This section shows how the revenue is distributed. In cases where uses or entities other than general fund receive a portion of the revenue, percentage distribution or the dollar amount is shown for each recipient. Also included in this section is a simplified flow chart illustrating how the revenue received from the source is distributed in the state accounting system.

**Collection Frequency:** Timing of the revenue deposited in the state treasury may affect the revenue estimate. Most revenue is usually received on a quarterly or monthly basis.

**% of Total FY General Fund Revenue:** To give the reader an idea of the importance of a particular revenue source, the percentages of total general fund revenue for FY 2004, 2005, and 2006 are included.

**Revenue Estimate Methodology:** A detailed explanation of the methodology used to derive assumptions for the revenue source is included. Methods differ between sources and may change each biennium depending on circumstances. Specific information on the type and source of the data that was used, analytical techniques, and any adjustments are provided along with charts showing major assumptions or components of the revenue source.

**Forecast Methodology:** This section includes a simplified flow chart illustrating the methodology used to determine the revenue estimates.

**Revenue Estimate Assumptions:** The data provided in these tables can be used in the formulas shown at the bottom of the tables to derive the revenue estimate. The tables show the revenue estimates for fiscal years 2005, 2006, and 2007, the estimated general fund amount, and, if applicable, distributions to other funds or uses.

**Revenue Projection:** This section consists of a graph and accompanying data table. The line graph shows the amount of actual collections from FY 1985 and the projected amounts for fiscal years 2007, 2008, and 2009. Total collections are depicted by a dark line while general fund collections are shown by a lighter line. The data table contains historic information about this data source since 1985 including: 1) actual total collections; 2) actual general fund collections; 3) projected total and general fund amounts for fiscal years 2007, 2008, and 2009; and 4) the yearly percentage change in general fund.

**Data Source(s):** The various state agencies, federal agencies, companies, information systems, publications, fiscal notes, etc., that were consulted or reviewed in the estimation process are listed.

**Contacts:** The reader may contact these entities for more information about the revenue source.

The remaining portion of this document is the RTIC revenue estimates by revenue source.

#### **Purpose of the Report**

As delineated in Section 5-5-227(1)(a), MCA, the RTIC is required to prepare “an estimate of the amount of revenue projected to be available for legislative appropriation.” In addition, sections 5-12-302(2) and 5-12-307(6) specifically require the Legislative Fiscal Analyst (LFA) to “estimate revenue from existing and proposed taxes” and also requires the LFA to “assist the revenue and transportation committee in performing its revenue estimating duties...”

The purpose of this report is to document the RTIC recommendations regarding anticipated revenues for fiscal 2007 through 2009. It should be noted that the estimates are based on current federal and state laws and do not include estimates for revenues due to litigation or any other pending legal issues. This position is consistent with past recommendations of the RTIC.



# Montana Economic Outlook

## Montana Economic Outlook

Montana state government, like any other business, is influenced by economic and demographic developments. For example, Montana's economic base as well as the strength of the U.S. economy determines the level of revenues collected from personal and corporate income taxes, property taxes, natural resource taxes, and investment earnings. Similarly, both economic and demographic variables affect state government disbursements for education, human services, corrections, and other governmental services.

Montana's total revenue base is comprised of a number of taxes and fees plus numerous federal reimbursements or grants. Revenues are further enhanced from the investment of trust monies and idle cash pending disbursement from the state treasury. Since individual income tax is the state's largest general fund tax source, economic developments or trends in the areas of employment and income levels significantly influence available revenues to fund governmental services. Federal revenue correspondingly is used to fund a number of human service, transportation, and educational services. In a number of instances, general or state special revenue fund dollars are required to provide a state match before the federal funds can be disbursed.

Conversely, Montana's total expenditure base is targeted toward educational and human service programs with a significant allocation to highway construction. Education and human service costs are driven by some of the same economic and demographic conditions that influence state revenues. If employment levels increase, this usually translates to an increase in population or a reduction in unemployment levels. With population increases comes a corresponding increase in educational and human service costs. A greater population requires a better transportation system not only for the general populace but also for the businesses that expect to expand to meet the needs of an ever-growing population.

Over the past 15 years, Montana has experienced a myriad of economic conditions. The 1990's were generally good years for Montana's economy. With a few exceptions, Montana experienced above average employment and wage levels that translated into strong tax revenue growth. This revenue growth was further enhanced by the significant increase in the equity markets and the resulting growth in capital gains income. In 2001 and 2002, the nation was faced with a recession. Montana's revenue stream was harmed by the same factors that had earlier created extraordinary growth. Yet at this time, the state's revenues are again increasing.

The three income sources primarily responsible for Montana's revenue reversal are individual income tax, corporation income tax, and oil and natural gas production taxes. Individual income tax has experienced increased growth resulting in large part from federal tax reform, increases in wage growth (especially in real wage growth per worker), higher royalty income, and a higher capital gains base in 2004 and 2005. These increases in individual income tax revenues occurred even with the implementation of SB407, the state individual income tax reform legislation enacted by the 2003 Legislature. SB 407 reduced tax rates on income and instituted a new capital gains credit of 1 percent beginning January 1, 2005. The capital gains credit increases to 2 percent on January 1, 2007. The corporation income tax revenues have rebounded as Montana corporations have recovered from the recession of 2001 and the effects of "9/11". Additionally, the natural resource boom that is currently underway in Montana has dramatically increased corporate profitability for energy companies and its residual industries. Finally, both oil and natural gas prices have increased significantly in response to the war in Iraq and the uncertainty about future supplies. Because oil and natural gas tax rates are based on the value of the commodity, higher prices have caused a surge in revenues from this source. Additionally, higher prices have stimulated new drilling activity for both commodities.

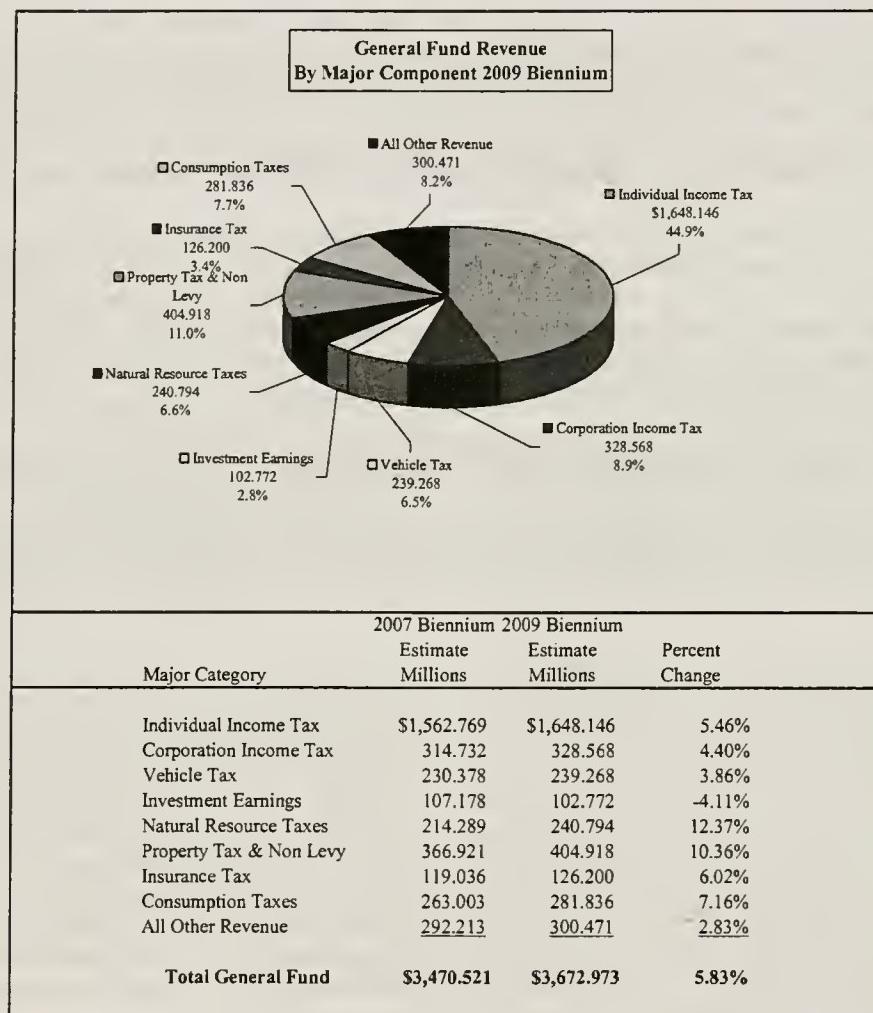
The legislature faces a brighter financial picture than just two years ago. Total general fund revenues have increased substantially during the fiscal periods 2004 through 2006. Greater revenues combined with disbursement budgets as adopted by the 59th Legislature have produced a record fund balance for FY 2006 with another record year anticipated for FY 2007.

Nonetheless, the 60<sup>th</sup> Legislature should carefully craft the 2009 biennium budget and be cognizant of the potential one-time characteristics of the revenue base. At this time, it is unclear whether current wage growth, capital gains income, corporate profitability, and oil and gas production and price levels are sustainable into the future. The 60<sup>th</sup> Legislature should not build a general fund budget that utilizes potential one-time revenue as a permanent source of funding for future budgets.

## General Fund Revenue Implications

Montana's fiscal outlook for revenue growth is more optimistic than the last biennium. The key economic assumptions targeted as most affecting state government receipts are Montana total income, employment, population levels, inflation rates, corporate profits, property values, interest rates, and energy prices.

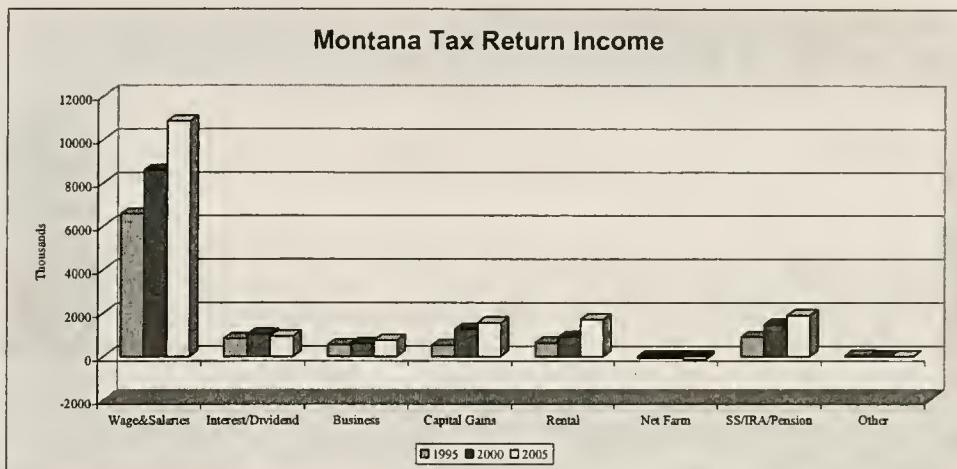
As shown in the following figure, individual income tax, corporation income tax, property tax, vehicle tax, and investment earnings are expected to contribute over 74 percent to the total general fund revenue stream during the 2009 biennium. Total general fund revenues for the 2009 biennium are projected to increase 5.8 percent over the 2007 biennium projections. The comparative biennial change by major revenue category is shown at the bottom of the figure.



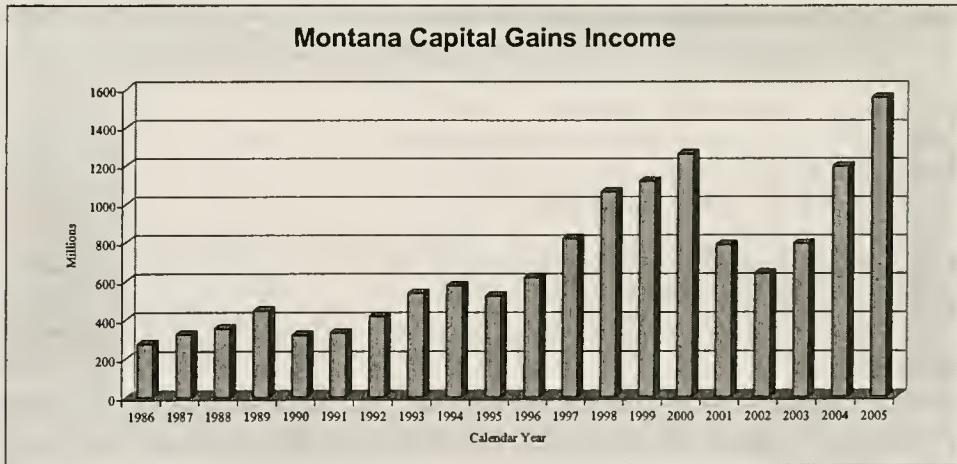
The next section of the report highlights the significant economic assumptions used to develop the revenue estimate recommendations contained in this document. Each assumption is discussed and is graphically portrayed to give the reader a perspective of the historical trend versus the forecast amount.

## Montana Total Income

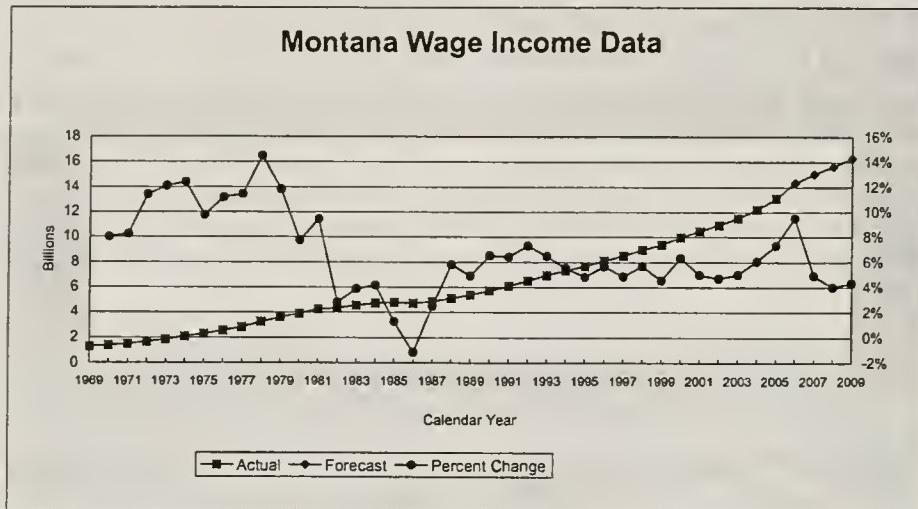
The total of all income sources listed on the Montana personal income tax form is referred to as Montana total income. The Department of Revenue tracks income from 11 different components, including wages, interest, dividends, business, capital gains, supplemental, rental, farm, social security, IRA and pension, and other incomes. Montana total income is the single most important variable to consider in the revenue estimation process. Of the 11 income items, wage and salary income provides the largest portion of Montana total income. Since 1990, wage and salary income has contributed an annual average of 65.2 percent of total income. In calendar 2005, it contributed 61.7 percent, or \$10.8 billion. The average compounded growth from calendar 1990 to 2005 has been 5.3 percent



In recent times, capital gains income has been the focus of much conversation and speculation. Capital gains income has increased in relative importance over the decade. In 1990, capital gains made up only 4.2 percent of total income, with reported income of \$318 million. In 2001, capital gains receded to 5.7 percent of total income, with income at \$786 million, a reduction of over 37.6 percent over the previous year. In 2005, capital gains income was \$ 1,554 million and increased to nearly 8.9 percent of total income.



In 2002 capital gains income fell by \$622.3 million from the 2000 level, but rebounded in calendar 2003 through 2005.. Capital gains are projected to remain constant between 2006 and 2009.



## Montana Wages

The average annual growth in Montana wages and salaries has been 5.7 percent between 1990 and 2005. Lower wage growth has been experienced in the latter half (5.1 percent) of this period than in first half (5.8 percent). This is due to lower growth in employment and lower inflation since 1997. Somewhat countervailing these trends has been an increase in real wage per worker since 1997. The average annual growth in real wage per worker was -0.2 percent between 1990 and 1997, but has averaged 1.2 percent since then. It appears that growth in real wage per worker may reach 3.9 percent in calendar 2004.

The forecast for inflation between calendar years 2005 and 2009 is the same as used by the Congressional Budget Office for the federal budget. Employment is expected to grow 2.0 percent in calendar year 2006, 1.6 percent in 2007, 1.4 percent in 2008 and 1.2 percent in calendar year 2009.

The growth in real wage per worker is forecast to decline to between 0.5 percent and 1 percent in calendar years 2007 through 2009 from its current high levels, above at the long run average, but below levels seen recently.

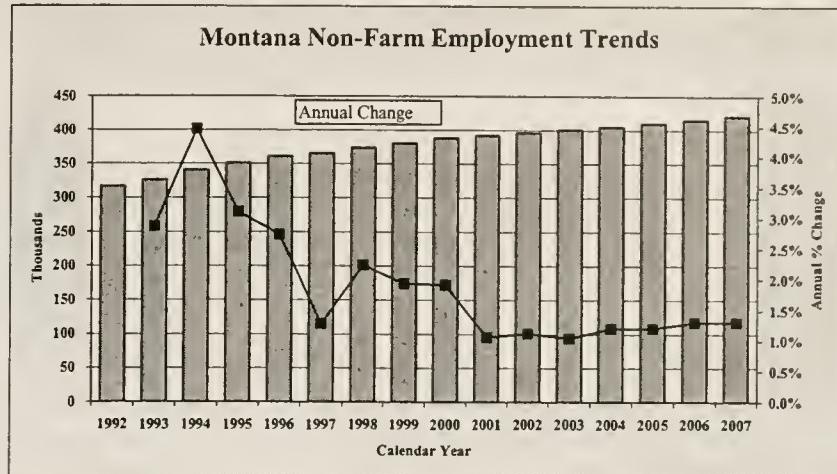
The growth in wages and salaries, unadjusted for inflation, is expected to grow by 9.5 percent in calendar 2006. First half growth in calendar 2006 is 9.9 percent, but second half growth is usually lower than first half growth when first half growth exceeds the long run average.

The growth in wages and salaries is expected to be 4.9 percent in calendar year 2007, 4.0 percent in 2008 and 4.3 percent in 2009.

Wage and Salary Income Growth				
Calendar Year	Employment Growth	Inflation	Real Wage Per Worker	Wage Growth
A 1991	2.1%	4.8%	-0.6%	6.4%
A 1992	4.3%	3.6%	-0.7%	7.3%
A 1993	2.9%	3.0%	0.5%	6.5%
A 1994	4.5%	2.8%	-1.7%	5.5%
A 1995	3.1%	2.7%	-1.0%	4.8%
A 1996	2.8%	2.9%	-0.1%	5.6%
A 1997	1.3%	2.6%	0.9%	4.8%
A 1998	2.2%	1.9%	1.5%	5.7%
A 1999	2.0%	1.9%	0.6%	4.5%
A 2000	1.9%	2.8%	1.4%	6.3%
A 2001	1.2%	3.1%	0.7%	5.0%
A 2002	1.1%	2.2%	1.3%	4.7%
A 2003	1.2%	2.0%	1.8%	5.0%
A 2004	2.7%	2.5%	0.8%	6.0%
A 2005	2.2%	3.0%	1.9%	7.3%
F 2006	2.0%	3.3%	3.9%	9.50%
F 2007	1.6%	2.7%	0.5%	4.91%
F 2008	1.4%	2.1%	0.5%	4.00%
F 2009	1.2%	1.9%	1.1%	4.31%

## Montana Employment

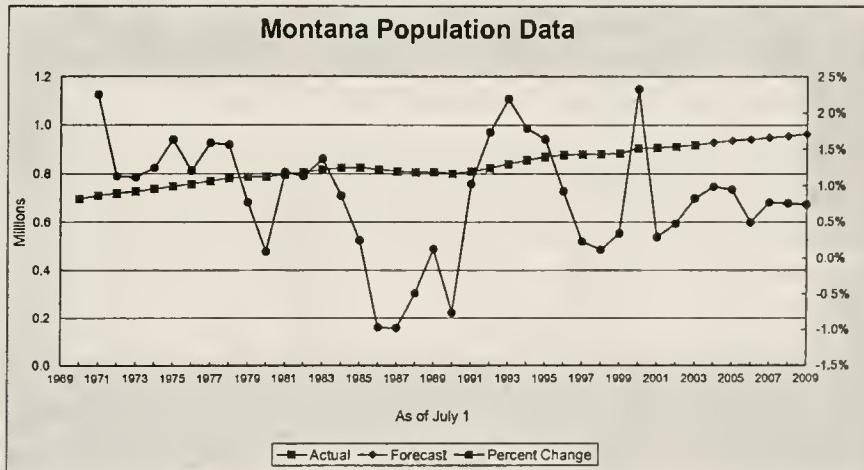
Average annual growth in total employment between 1990 and 2005 has been 2.4 percent, although since 2000 the average rate of growth has been 1.7 percent. It is expected that employment growth through 2006 will be 2.0 percent and grow by about 1.4 percent in calendar years 2007, 2008, and 2009. Since 1990, the fastest growing sector in terms of employment has been construction, which experienced a 6.6 percent annual increase in employment. Other fast growing sectors have been professional and business services (5.5 percent annual growth), education and health services (3.2 percent annual growth), accommodation and food services (3.1 percent annual growth). Sectors that have experienced reduced or stable employment since 1990 are mining and manufacturing. Mining employment is expected to increase during the forecast period.



## Montana Population

Population statistics are used to develop estimates for many of the revenue sources including beer, wine, liquor, and cigarette taxes. In addition to those sources where population has a direct effect, the size of the population indirectly affects the profitability of all businesses and the employment levels statewide. Accurate population estimates are especially important when determining the changes expected in overall and per capita income for the state.

Consumption of any given item is highly reliant upon the size of the population, so accurate population forecasts are essential when determining tax revenues from the sources mentioned above. Historic population data is gathered from the U.S. Census department while projections are obtained from Global Insight. Since the early 1990's, Montana has experienced positive growth in total population varying between 0.1 percent in 1998 to 2.3 percent in 2000. Growth through the next biennium is estimated at about 0.7 percent annually.

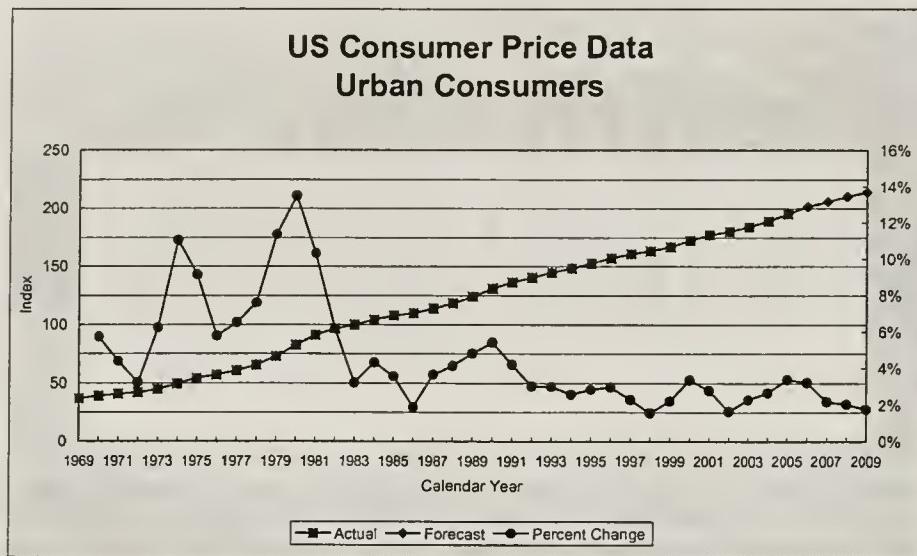


## Inflation Rates

The inflation rate is measured by the price change of the Consumer Price Index (CPI) "shopping basket" of goods and services. Inflation is noted to have both good and bad effects. As prices rise, businesses increase prices and tend to become more profitable. At the same time, the consumer realizes a reduction in disposable income and spends less. Several areas where this information is vital in determining costs include minerals, timber, energy resources, and most services.

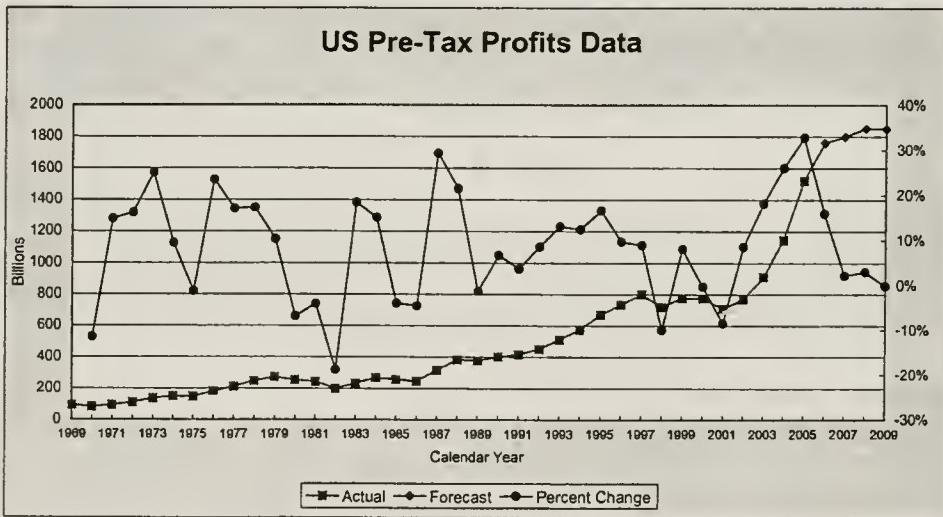
Since Montana's individual income tax structure is fully indexed by changes in the consumer price index, this assumption is critical in the formulation of the individual income tax forecasts. The U.S. Bureau of Labor Statistics provides the required CPI

data for the all-urban customers data set. Since 1990, the average annual rate of inflation has been 3.3 percent. Global Insight forecasts inflation at 2.3 percent (November 2004). The average forecast used by the Congressional Budget Office and other private economists is 2.2 percent per year through calendar 2009. The forecast is 2.2 percent through 2009.



## Corporate Profits

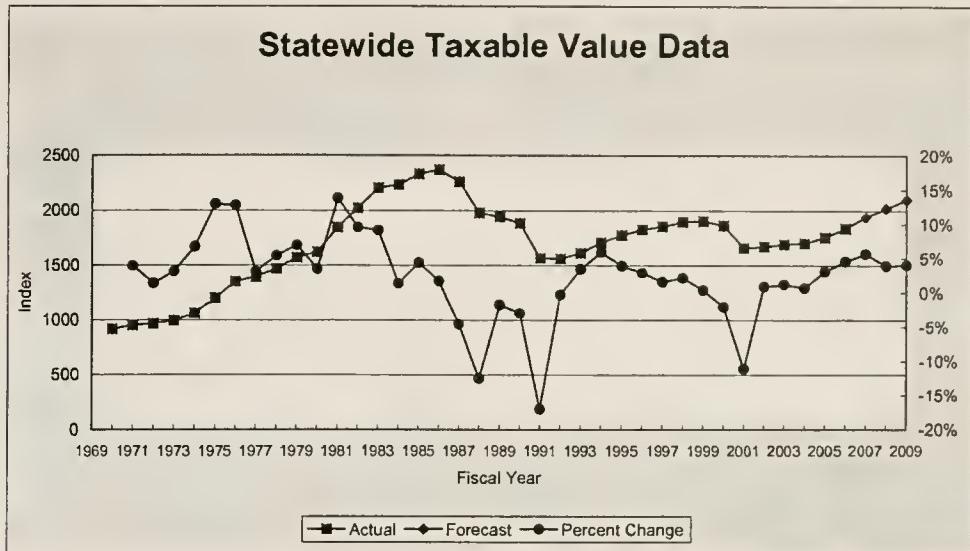
The profitability of corporate America is an important factor in estimating revenues. Corporate profitability affects both corporation license tax and individual income tax estimates. When corporations are profitable nationally, there is an expectation that corporations will be profitable in Montana. Additionally, greater corporate profitability is largely responsible for the amount of dividends corporations pay to stockholders as well as the value of equity investments. During the most recent years, the reduction of corporate profits has translated to lower corporate license tax collections. According to Global Insight, between 1990 and 1997, US corporation pre-tax profits increased by an annual average of 10.3 percent. However, from 1997 through 2001, profits decreased by an average of 3.0 percent, the greatest decrease of 14.2 percent occurring in 2001. In 2004 and 2005, corporate profitability increased by 26.0 percent and 32.7 percent respectively. That trend is not expected to continue with projected average annual increases of approximately 1.7 percent between 2007 and 2009.



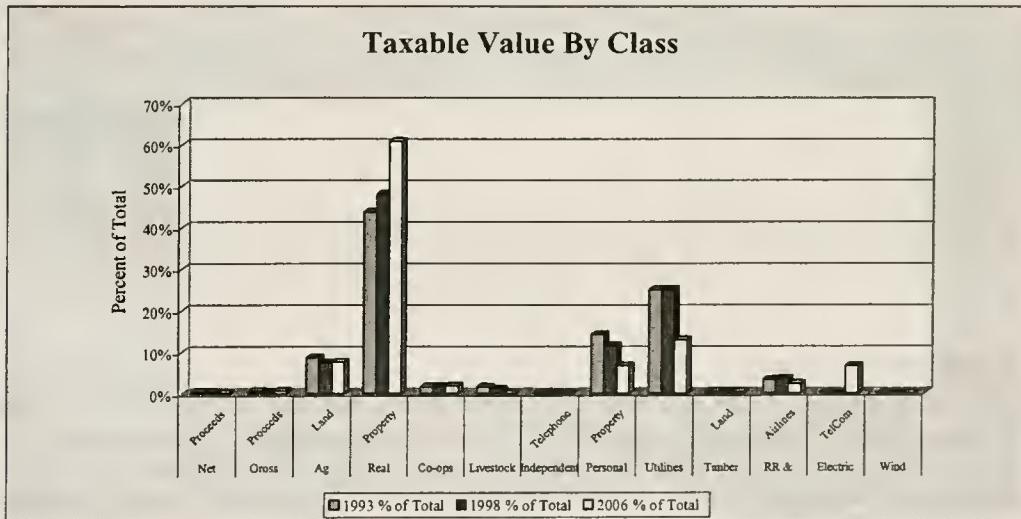
## Property Values

Change in statewide property values is the critical assumption behind the estimates for property taxes. Historic property values are obtained from the Montana Department of Revenue. Total statewide taxable value increased slowly during the first part of

the 1990's but fell in fiscal 2000. This decline was primarily due to business equipment tax changes enacted by previous legislatures. Other reductions occurred in electrical generating and telecommunication property. Property values resumed an upward trend in 2002 and have increased every year since that time. That trend is expected to continue through the next biennium with an average annual growth of about 3.9 percent.



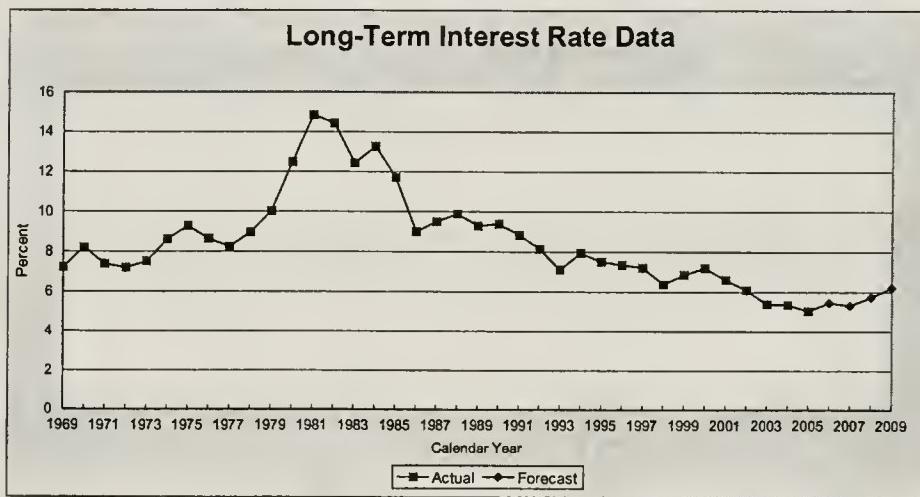
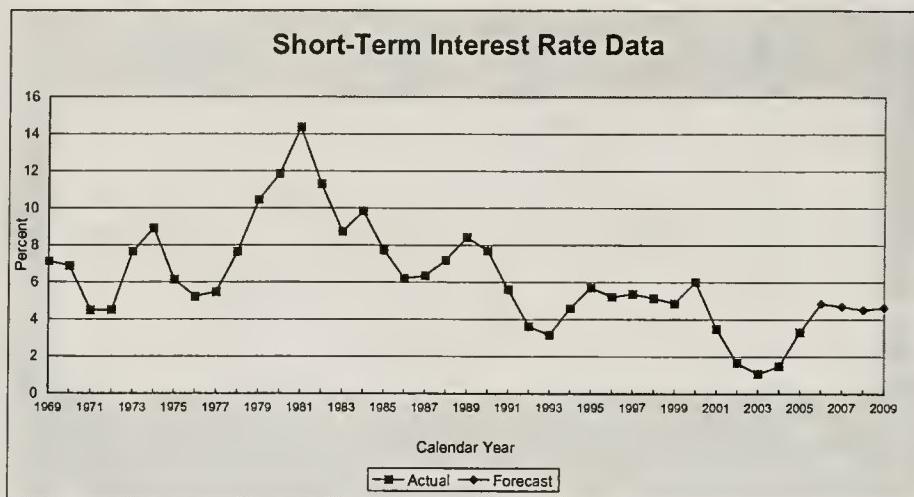
Significant changes have taken place in statewide property values since fiscal 1998. In that year, 48.0 percent of total statewide value was in class 4, residential and commercial property, and 11.5 percent of total value was in class 8, business equipment personal property. In fiscal 2006, the class 4 taxable value was 60.8 percent of the total property tax base, while class 8 was only 6.6 percent of the base.



## Interest Rates

A large portion of Montana's revenues is derived from investment earnings from trust accounts and daily invested cash. Interest rates also affect the amount of investment income that is reported on individual income tax returns. As such, interest rates are a significant assumption when estimating future state revenues. In addition to the state revenue impact, interest rates are fundamental in understanding the climate in which consumers and businesses are likely to make investments and large purchases. While low interest rates produce less revenue for Montana's trust and interest holdings, higher income tax earnings might be expected as construction and sales activities increase. Two types of interest rates, long and short term, are estimated and used in determining future revenues. Both rates are an average across a selection of investment instruments. The forecasted rates are

obtained from Global Insight. Long-term rates are an average of Corporate Aaa and Baa bonds, 10-year T bonds, and 30-year T bonds. Short-term rates are an average of 3-month Corporate paper and 3 and 6-month T bills. The fiscal year computation of short-term interest rates reached an unprecedented low in 2004. However, as the economy began to regain strength in calendar year 2004, the Federal Reserve began increasing the discount rate. Global Insight projects short-term interest rates will remain stable at current rates through the 2009 biennium. Long-term rates are expected to increase through the 2009 biennium.



## Energy Prices and Consumption

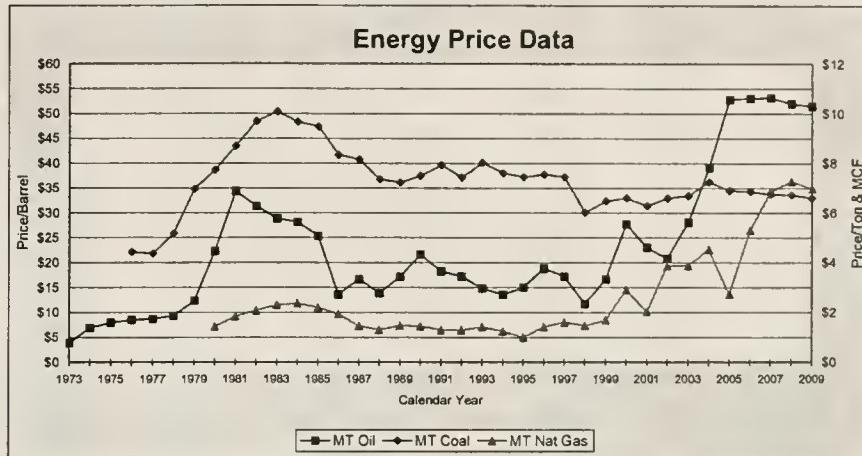
West Texas Intermediate spot oil prices averaged \$26.11 per barrel in calendar 2002, rose to \$31.12 in calendar 2003, and averaged \$56.55 in calendar 2005. Global Insight forecasts WTI oil prices to increase to \$67.00 in calendar 2006, and then drop to \$65.62 in calendar 2007. A further drop to \$64.75 and \$63.87 in calendar 2008 and 2009, respectively, is anticipated. While Montana wellhead prices are considerably lower than the WTI price, Montana prices are expected to follow a similar trend.

Natural gas prices at the wellhead in the US averaged \$2.87 per million cubic feet in calendar 2002, rose to \$4.84 in calendar 2003, and averaged \$7.31 in calendar 2004. Global Insight is forecasting average Henry Hub natural gas prices at \$8.41 in calendar 2007, \$9.09 in calendar 2008, and \$8.81 in calendar 2009. While Montana wellhead prices are considerably lower than the Henry Hub price, Montana prices are expected to follow a similar trend.

After decades long reductions in oil production – from a peak in 1973 of 34 million barrels to a trough in 1999 of 15 million barrels – recent Montana production has increased. New drilling activity increased 75 percent in 2003, and has increased nearly the same amount in 2004. In calendar 2005, production was over 32 million barrels and will probably be near 35 million barrels.

in calendar 2006. Montana oil production is expected to be just over 38 million barrels in calendar 2007, just over 36 million barrels in calendar 2008 and 32 million barrels in calendar 2009.

In response to higher prices, natural gas production in Montana doubled between 1981 and 2003, from 40 million MCF to 80 million MCF, with 75 percent of that increase since 1997. Newly drilled wells have contributed around 20 percent to total production since calendar 2000. As in the oil market, new drilling activity was up substantially in calendar 2003 and 2004. Montana natural gas production is expected to be 107 million MCF in calendar 2006, 107 million MCF in calendar 2007, 104 million MCF in calendar 2008, and 100 million MCF in calendar 2009.



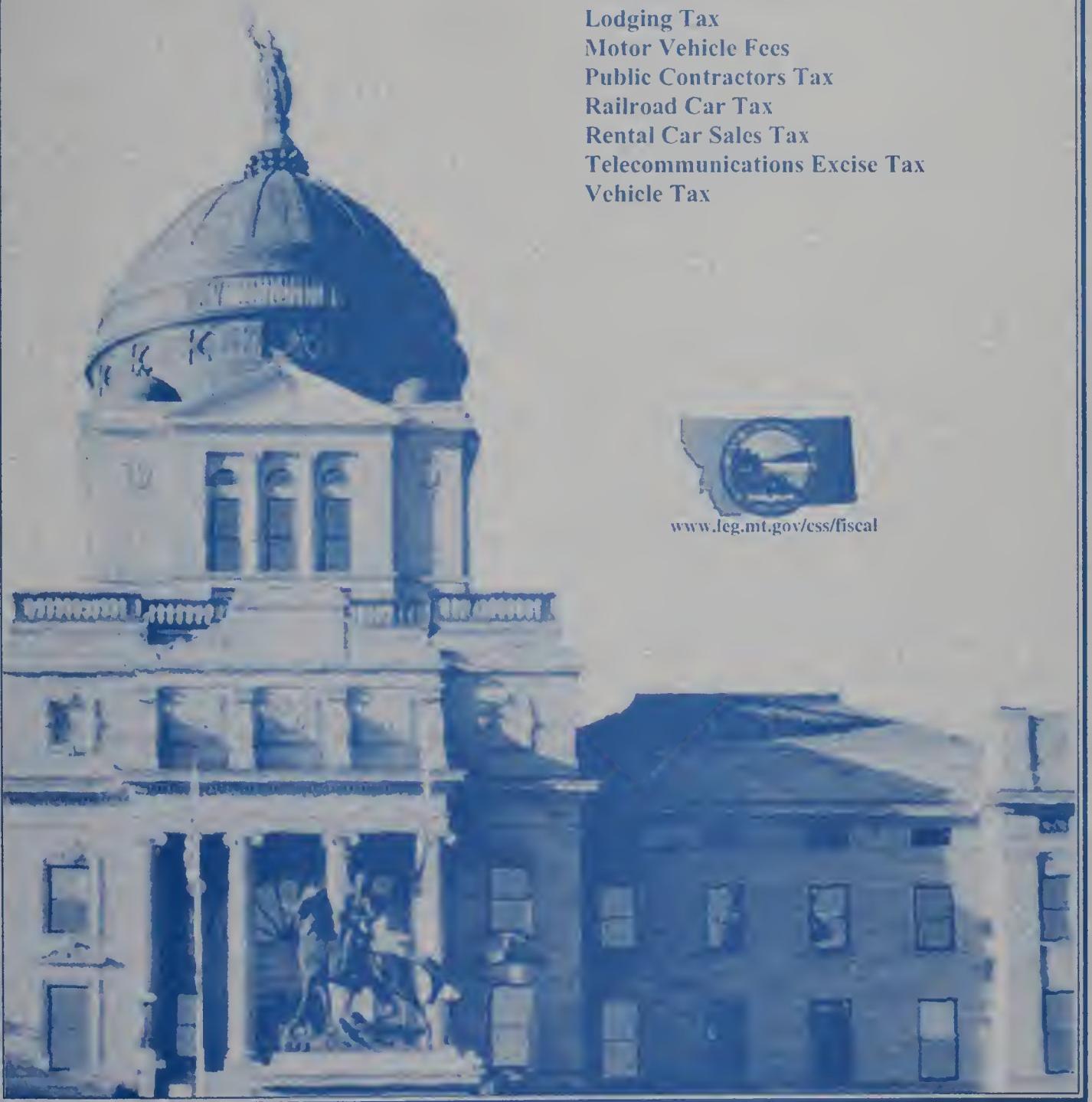
**Revenue & Transportation Interim Committee**  
**General Fund Revenue Estimates**  
**In Millions**

Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Individual Income Tax	45.01%	\$768.922	\$793.847	\$797.035	\$851.111	\$1,562.769	\$1,648.146	44.87%
2 Property Tax	10.40%	177.639	189.282	198.124	206.794	366.921	404.918	55.90%
3 Corporation Income Tax	9.00%	153.675	161.057	161.301	167.267	314.732	328.568	64.84%
4 Vehicle Tax	5.39%	92.097	106.473	109.028	111.645	198.570	220.673	70.85%
5 Common School Interest and Income	0.00%	-	-	-	-	-	-	70.85%
6 Insurance Tax & License Fees	3.44%	58.795	60.241	62.129	64.071	119.036	126.200	74.29%
7 Coal Trust Interest	1.82%	31.106	29.959	29.927	29.945	61.065	59.872	75.92%
8 US Mineral Royalty	1.72%	29.304	28.680	31.694	29.400	57.984	61.094	77.58%
9 All Other Revenue	1.87%	31.867	31.542	30.877	31.550	63.409	62.427	79.28%
10 Tobacco Settlement	0.16%	2.734	2.822	3.855	3.996	5.556	7.851	79.49%
11 Telecommunications Excise Tax	1.24%	21.209	21.255	21.298	21.335	42.464	42.633	80.65%
12 Video Gambling Tax	3.35%	57.277	59.871	63.649	67.646	117.148	131.295	84.23%
13 Treasury Cash Account Interest	1.09%	18.631	27.482	21.546	21.354	46.113	42.900	85.40%
14 Estate Tax	0.10%	1.773	0.706	0.310	0.113	2.479	0.423	85.41%
15 Oil & Natural Gas Production Tax	5.42%	92.563	86.241	101.224	101.288	178.804	202.512	90.92%
16 Motor Vehicle Fee	1.24%	21.195	10.613	9.201	9.394	31.808	18.595	91.43%
17 Public Institution Reimbursements	0.75%	12.728	11.451	12.742	12.810	24.179	25.552	92.12%
18 Lodging Facility Use Tax	0.63%	10.679	11.290	11.881	12.504	21.969	24.385	92.79%
19 Coal Severance Tax	0.56%	9.597	9.813	10.114	9.688	19.410	19.802	93.33%
20 Liquor Excise & License Tax	0.74%	12.709	13.639	14.573	15.551	26.348	30.124	94.15%
21 Cigarette Tax	2.02%	34.573	34.516	33.843	33.308	69.089	67.151	95.97%
22 Investment License Fee	0.33%	5.584	6.002	6.451	6.933	11.586	13.384	96.34%
23 Lottery Profits	0.53%	9.110	8.345	8.838	9.414	17.455	18.252	96.84%
24 Liquor Profits	0.44%	7.450	7.593	8.047	8.515	15.043	16.562	97.29%
25 Nursing Facilities Fee	0.33%	5.712	5.814	5.781	5.752	11.526	11.533	97.60%
26 Foreign Capital Depository Tax	0.00%	-	-	-	-	-	-	97.60%
27 Electrical Energy Tax	0.27%	4.645	4.698	4.798	4.797	9.343	9.595	97.86%
28 Metalliferous Mines Tax	0.41%	7.028	9.048	9.613	8.867	16.076	18.480	98.37%
29 Highway Patrol Fines	0.25%	4.316	4.926	4.974	5.023	9.242	9.997	98.64%
30 Public Contractors Tax	0.25%	4.275	3.883	3.417	3.403	8.158	6.820	98.82%
31 Wholesale Energy Tax	0.22%	3.813	3.814	3.827	3.811	7.627	7.638	99.03%
32 Tobacco Tax	0.26%	4.360	4.401	4.385	4.406	8.761	8.791	99.27%
33 Driver's License Fee	0.22%	3.828	3.918	3.952	3.983	7.746	7.935	99.49%
34 Rental Car Sales Tax	0.16%	2.755	2.875	3.000	3.131	5.630	6.131	99.65%
35 Railroad Car Tax	0.10%	1.667	1.631	1.567	1.506	3.298	3.073	99.74%
36 Wine Tax	0.10%	1.624	1.705	1.798	1.892	3.329	3.690	99.84%
37 Beer Tax	0.17%	2.908	2.922	2.965	3.006	5.830	5.971	100.00%
38 Telephone License Tax	0.00%	0.017	-	-	-	0.017	-	100.00%
39 Long Range Bond Excess	0.00%	-	-	-	-	-	-	100.00%
<b>Total General Fund</b>	<b>100.00%</b>	<b>\$1,708.166</b>	<b>\$1,762.355</b>	<b>\$1,797.764</b>	<b>\$1,875.209</b>	<b>\$3,470.521</b>	<b>\$3,672.973</b>	<b>100.00%</b>

Revenue & Transportation Interim Committee Non-General Fund Revenue Estimates In Millions								
Source of Revenue	Percent of 2006	Actual Fiscal 2006	Estimated Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009	Estimated Fiscal 06-07	Estimated Fiscal 08-09	Cumulative % of Total
1 Diesel Tax	19.22%	\$70,595	\$74,285	\$78,147	\$82,210	\$144,880	\$160,357	21.22%
2 Federal Forest Receipts	3.49%	12,800	13,006	13,148	13,282	25,806	26,430	24.71%
3 Gasoline Tax	36.81%	135,192	135,742	136,295	136,850	270,934	273,145	60.85%
4 GVW and Other Fees	7.87%	28,916	28,693	28,497	28,982	57,609	57,479	68.46%
5 Resource Indemnity Tax	0.40%	1,456	1,307	1,335	1,290	2,763	2,625	68.80%
6 Arts Trust Interest	0.12%	0,447	0,483	0,496	0,510	0,930	1,006	68.94%
7 Capital Land Grant Interest and Income	0.43%	1,590	1,072	1,157	1,217	2,662	2,374	69.25%
8 Deaf & Blind Interest and Income	0.08%	0,291	0,284	0,286	0,287	0,575	0,573	69.33%
9 Parks Trust Interest	0.26%	0,972	0,983	1,009	1,036	1,955	2,045	69.60%
10 Pine Hills Interest and Income	0.11%	0,397	0,387	0,389	0,391	0,784	0,780	69.70%
11 RIT Trust Interest	1.61%	5,916	5,645	5,646	5,658	11,561	11,304	71.19%
12 TSE Trust Interest	2.19%	8,039	8,434	8,950	9,489	16,473	18,439	73,63%
13 Economic Development Trust	0.33%	1,194	1,455	1,716	1,982	2,649	3,698	74.12%
14 Tobacco Trust Interest	0.92%	3,388	3,939	4,567	5,413	7,327	9,980	75.44%
15 Regional Water Trust Interest	0.42%	1,527	1,823	2,082	2,348	3,350	4,430	76.03%
16 Property Tax: 6 Mill	3.25%	11,952	12,505	12,971	13,359	24,457	26,330	79.51%
17 Common School Interest and Income	22.49%	82,606	75,414	77,794	77,049	158,020	154,843	100.00%
Total Non-General Fund	100.00%	\$367,275	\$365,457	\$374,485	\$381,353	\$732,732	\$755,838	100.00%



# **Business and Personal Taxes**



Corporation Income Tax  
Driver's License Fees  
Estate Tax  
Individual Income Tax  
Insurance Tax & License Fees  
Investment License Fee  
Lodging Tax  
Motor Vehicle Fees  
Public Contractors Tax  
Railroad Car Tax  
Rental Car Sales Tax  
Telecommunications Excise Tax  
Vehicle Tax



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



# Legislative Fiscal Division

## Revenue Estimate Profile

### Corporation Income Tax

**Revenue Description:** The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation income tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts are adjusted for allowable credits.

#### Statutory Reference:

Tax Rate (MCA) – 15-31-121,

Tax Distribution (MCA) – 15-31-121, 15-1-501(1)

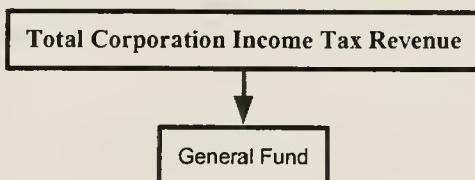
Date Due – by the 15<sup>th</sup> day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502).

Estimated taxes due April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, and December 15<sup>th</sup> (15-31-502).

**Applicable Tax Rate(s):** The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

**Distribution:** Beginning fiscal 2006, all corporation tax revenue is distributed to the general fund.

#### Distribution Chart:



**Collection Frequency:** Monthly, Quarterly, and Annually

#### % of Total General Fund Revenue:

FY 2004 - 4.90%

FY 2005 - 6.42%

FY 2006 - 9.00%

#### Revenue Estimate Methodology:

##### Data

The data used to develop the estimates for the corporation income tax are provided by the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides corporation data from the corporation income tax return series that include total corporation income, Montana allocation information, and the Montana tax liability. The return series tends to be relatively dated information because corporations are allowed up to 10.5 months after the end of the tax year to file the return. The DOR also provides a series based on the corporation income tax payment data. This series provides more timely data and includes individual corporation payment by type (estimated, tentative, return, refund, audit). SABHRS provides historic fiscal year data of total collections, current year payments, estimated payments, audits and penalty and interest, and refunds.

Several steps must be taken prior to analysis of the corporation income tax data. The corporation tax estimate for the estimated period is calculated using the DOR payment data series. Upon receipt of the data series, all prior year payments must be removed. Next, the data is broken into two parts, taxpayers paying greater than or equal to \$100,000 annually and taxpayers paying less than \$100,000. Finally, the large taxpayer data is disaggregated based on the industrial sector of the corporation. The data is then evaluated and adjusted when needed. If the data acceptably matches the SABHRS data, then the analysis process can begin.

##### Analysis

A new approach was developed to project corporate income taxes for the estimated period. The corporation income tax is difficult

# Legislative Fiscal Division

## Revenue Estimate Profile

### Corporation Income Tax

to estimate accurately, given the high level of variability in collections. Collection patterns show that current tax payments often originate in a previous year. Included in fiscal year data are late payments, audit payments, and refunds. These activities tend to promote misinterpretation of how high, or low as the case may be, Montana corporate profitability is in any given tax year. A simple review of SABHRS data will not distinguish the many anomalies of the data, leading to the adoption of incorrect assumptions. The approach developed for the corporation estimate employs DOR corporation tax payment data to make future estimates as accurate as possible. By disaggregating the data based on corporate industrial sector, specific components of the corporate landscape can be analyzed, measured, and forecast independently with industrial sector projections. Finally, adjustments to historical payment data, prior year payments, audits, and refunds can provide an indication of future payment behavior and a base from which estimates can be developed. The new technique was tested using fiscal 2005 payment data and industrial sector growth factors. This validation process showed that the technique accurately projected fiscal 2006 collections as reported on SABHRS. The results of this technique differ greatly from other types of corporate tax payment analysis/forecasting and provide a more accurate estimation for rate of overall growth.

Many corporate entities in Montana do not demonstrate profitability behavior like national corporations. For example, financial corporations lag the nation in profitability, and Montana's large natural resource base is as volatile as the commodity prices, affecting the payments of oil and gas, energy, mining, and timber corporations. To reflect the peculiar corporate profitability exhibited in Montana, the estimates of corporation tax payments are created through a detailed study of tax payments by industry. To ensure that proper growth is assessed to each industrial sector, the payment data of the high payment corporate tax payers is separated by industry and growth rates are established for each of the industrial sectors. The figure below shows each of the sectors that were developed in this process and include an oil and natural gas sector, a financial sector, an energy sector, a mining sector, a timber sector, a sector for all other large industrial corporation types, and a domestic sector (including all small corporate taxpayers). Also included in the figure are the growth factors used to estimate future collections of the corporate income tax by sector and the source of those measures.

Corporation Sector Analysis						
Industrial Sectors	% Total Taxes	Source of Growth Measure	Growth Factors			
			2007	2008	2009	
Financial	16.6%	Global Insight - All Loans	6.92%	6.12%	5.66%	
Oil & Nat. Gas*	21.1%	Oil & Natural Gas Revenue Estimate	14.30%	-3.86%	-10.98%	
Energy	5.9%	Global Insight - Edemand*Eprice	0.78%	0.63%	1.66%	
Mining	3.8%	Metal Mines Revenue Estimate	13.96%	-0.60%	-14.10%	
Timber	0.9%	Global Insight - Logging	-4.08%	-1.53%	0.09%	
All Other Industries	29.0%	Global Insight - Pre-tax Profs. Analysis	11.47%	1.63%	2.24%	
Domestic	22.7%	Global Insight - Pre-tax Profs. Analysis	11.47%	1.63%	2.24%	

\* One adjustment made in the oil and gas sector creates the appearance of growth distortions.

#### Assumptions:

- Financial – The financial sector has recently been very profitable in Montana. Assumptions for the rationale behind the high profitability include lower interest rates and a highly active housing market. Both assumptions compel greater lending activities. This sector also includes investment corporations who are greatly affected by the activities of the stock market. Even with the effects of increased interest rates, the financial sector corporations are expected to increase their profitability over the next three years. The factor used to project future financial sector tax payment growth is derived from the change in the Global Insight projection of the amount of loans that will be issued to private and business consumers.
- Oil & Natural Gas – The oil and natural gas sector has experienced high levels of profitability as the prices for petroleum based products have increased over the past two years. The assumption of this analysis is that higher oil and gas prices have driven new production in the state and greater amounts of oil are being refined in Montana facilities. While the profitability of this sector has increased significantly, the rates of profitability are expected to decline in the future because the new production is now established. The factor used to project future oil and natural gas sector tax payment growth results is the change in the oil and natural gas gross values projected specifically for oil and natural gas severance taxes.
- Energy – Electric energy corporations have played a significant role in the Montana economy, but in recent years the importance of this sector has diminished in relation to the corporation income tax. The profitability, and associated tax

# Legislative Fiscal Division

## Revenue Estimate Profile

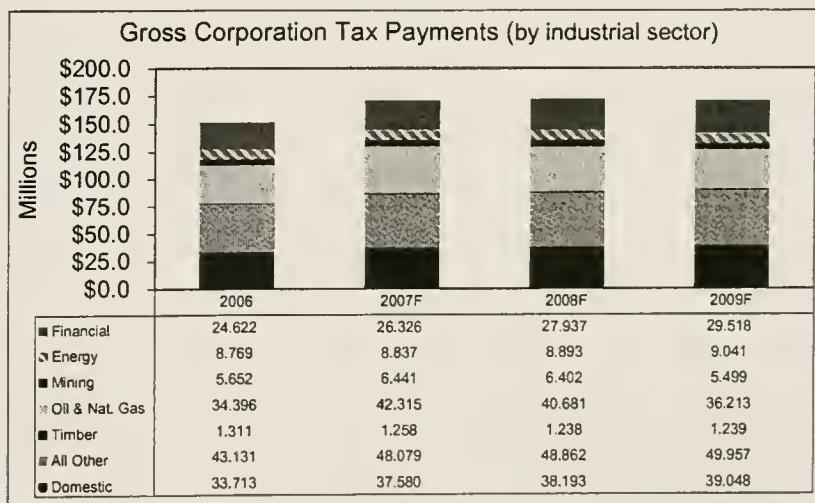
### Corporation Income Tax

payment history, has continued to increase slowly over the past years, and the assumption has that trend continuing over the next three years. The factor used to project future energy sector tax payment growth is the change in the product of the Global Insight projection for electric energy demand and electric energy price.

- Mining – Montana's mining sector recently gained new life as the price of almost all mineral commodities such as silver, gold, palladium, and copper has increased. Several mines temporarily reopened and have started new production. However, the price of most minerals is expected to decline over the next three years, and several large mining businesses are planning to discontinue their operations in Montana. Consequently, mining corporations are assumed to be less profitable in the next biennium. The factor used to project future tax payments through the mining sector is the change in value of minerals, projected specifically for the estimate of the metal mines tax.
- Timber – The timber sector in Montana is highly volatile. Timber corporations come and go, as evidenced in their tax payment history. The timber sector is assumed to remain volatile and is expected to reduce activity in upcoming years. The factor used to project future timber sector tax payment growth comes from the change in the Global Insight projection for logging in the nation.
- All Other – The all other sector includes the remaining large corporations. Included in this sector are businesses that endeavor in retail and wholesale sales, bar and restaurant activities, and construction activities, just to name a few. This sector is assumed to more closely follow the national corporation profitability model. The "All Other" sector has experienced rapid growth over past years and is assumed to experience high growth through 2007 with slower growth in the subsequent years. The factor used to project future tax payment growth in the this sector was developed in an analysis that regressed SABHRS total corporation tax data against the Global Insight "pre-tax corporation profits" variable, lagged one year, and a business cycle variable to value the corporate tax impact of recessionary periods. The regression provided an R<sup>2</sup> rating of 0.8797, which means that the regression analysis explains 87.97 percent of the variability in total corporation tax payments, when all other impacts are held constant.\*
- Domestic – The domestic sector is made up primarily of smaller corporate entities. Many of the corporations in this sector operate solely in Montana and are less profitable than their larger counterparts. The domestic sector is assumed to experience growth similar to the expected growth of other Montana based corporations, but while the growth will mimic the "All Other" corporation profit growth level, the resulting expected tax payments will be substantially smaller. Consequently, the factor used to project future domestic sector tax payment growth comes from the same source and is identical to the rates developed in the analysis discussed in the "All Other" sector discussion.

\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

To develop the estimate for the corporation income tax, the sector growth rate is applied to the most recent fiscal year, 2006, of actual payments. The projected payments by sector are seen in the figure below. The sectors are next summed to produce the estimate of total corporation income tax payments. For the estimated period, projected gross tax payments are \$170.8 million in fiscal 2007, \$170.5 in fiscal 2008, and \$170.8 in fiscal 2009.



# Legislative Fiscal Division

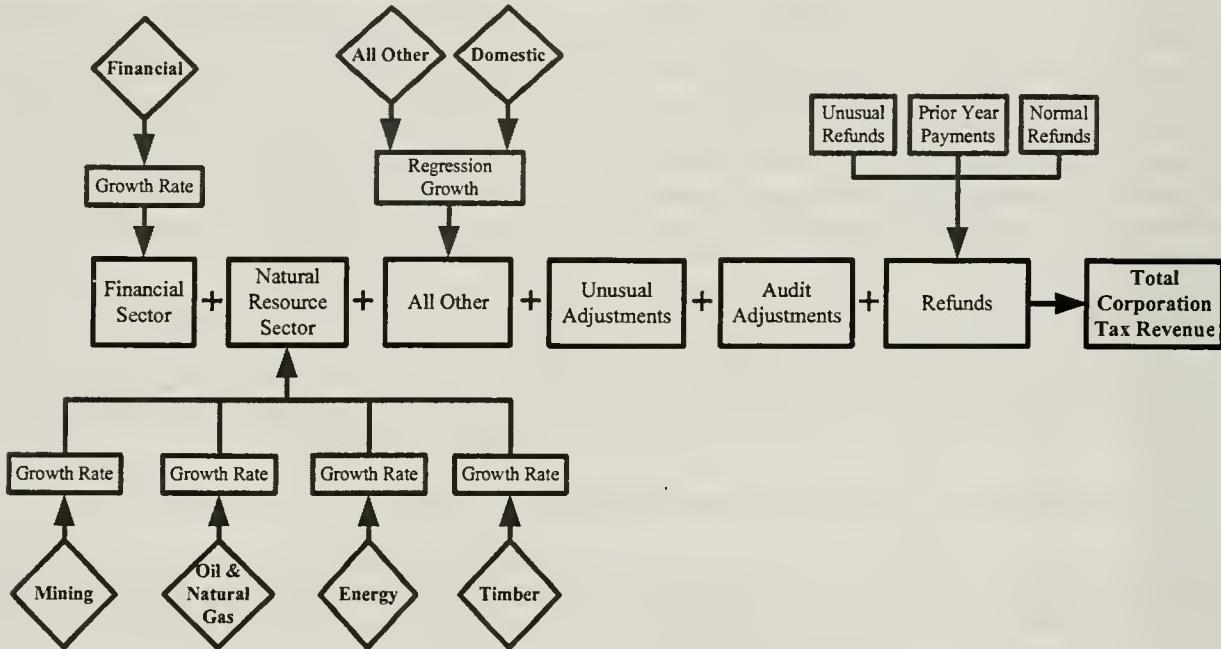
## Revenue Estimate Profile

### Corporation Income Tax

#### Adjustment and Distribution

After the estimate for gross corporation tax payments is complete, several adjustments are required. The first adjustment is to remove the projected refunds from the gross payments. Refunds in fiscal 2006 were 9.3 percent of total payments. That proportion is held constant, between fiscal 2007 and 2009. Gross payments are also reduced for unusual refunds anticipated by the DOR at \$6.0 million in fiscal 2007 and \$7.0 million in fiscal 2008. Gross payments are increased by audit activities. While audits have exceeded \$10 million in recent fiscal years, the DOR estimates that audits will produce \$4.0 million in fiscal 2007 and fiscal 2008 and \$4.5 million in fiscal 2009. The final adjustment is the increase of payments that result from prior year payments. Many corporations find mistakes in their payments outside the normal audit channel. Consequently, those mistakes are corrected through prior year payments. In fiscal 2006, prior year payments equaled \$8.1 million. Because the DOR believes the prior year activity was normal in fiscal 2006, adjustments for prior year payments are carried forward at the same level as observed in fiscal 2006.

#### Forecast Methodology



# Legislative Fiscal Division

## Revenue Estimate Profile

### **Corporation Income Tax**

#### **Revenue Estimate Assumptions**

	<u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	US Profits <u>Billions</u>	Tax Rate
Actual	2000	99.088867	90.682672	774.600000	0.067500
Actual	2001	103.670487	103.670487	740.700000	0.067500
Actual	2002	68.173253	68.173253	738.200000	0.067500
Actual	2003	44.137518	44.137518	838.300000	0.067500
Actual	2004	67.722940	67.722940	1026.200000	0.067500
Actual	2005	98.213716	98.213716	1331.500000	0.067500
Actual	2006	153.675068	153.675068	1639.400000	0.067500
Forecast	2007	161.057000	161.057000	1779.300000	0.067500
Forecast	2008	161.301000	161.301000	1825.100000	0.067500
Forecast	2009	167.267000	167.267000	1850.300000	0.067500

	<u>Fiscal</u>	Total <u>Millions</u>	Nat. Res. <u>Sector Millions</u>	Financial <u>Sector Millions</u>	All Other <u>Sector Millions</u>	Refunds <u>Millions</u>	Audits <u>Millions</u>
Actual	2000	99.088867					
Actual	2001	103.670487					
Actual	2002	68.173253					
Actual	2003	44.137518					
Actual	2004	67.722940					
Actual	2005	98.213716					
Actual	2006	153.675068					
Forecast	2007	161.057000	58.851281	26.325701	85.659009	-13.779159	4.000000
Forecast	2008	161.301000	57.215490	27.936834	87.055251	-14.906716	4.000000
Forecast	2009	167.267000	51.992559	29.518059	89.005289	-7.749391	4.500000

Total Tax = Nat. Res. + Financial + All Other + Refunds + Audits

GF Tax = Total Tax

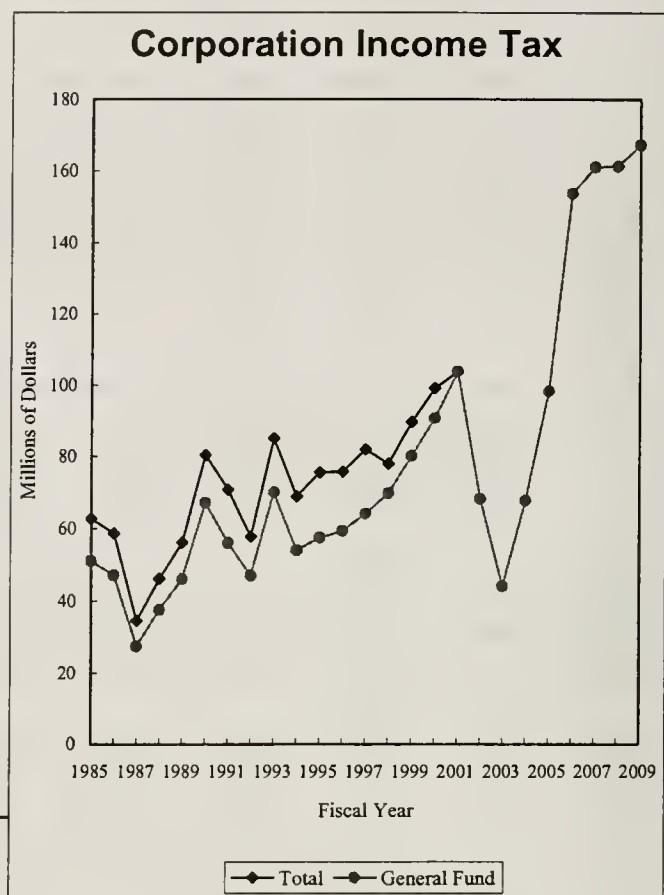
# Legislative Fiscal Division

## Revenue Estimate Profile

### Corporation Income Tax

Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	62.609205	50.976990	Not App.
A 1986	58.584784	47.121070	-7.56%
A 1987	34.566361	27.371125	-41.91%
A 1988	46.200104	37.584806	37.32%
A 1989	56.139749	46.152627	22.80%
A 1990	80.315504	67.087905	45.36%
A 1991	70.784279	56.006784	-16.52%
A 1992	57.682672	47.027797	-16.03%
A 1993	85.054483	70.003987	48.86%
A 1994	68.871909	53.996713	-22.87%
A 1995	75.519940	57.425136	6.35%
A 1996	75.761891	59.336677	3.33%
A 1997	81.999138	64.078549	7.99%
A 1998	77.928498	69.724680	8.81%
A 1999	89.624560	80.142416	14.94%
A 2000	99.088867	90.682672	13.15%
A 2001	103.670487	103.670487	14.32%
A 2002	68.173253	68.173253	-34.24%
A 2003	44.137518	44.137518	-35.26%
A 2004	67.722940	67.722940	53.44%
A 2005	98.213716	98.213716	45.02%
A 2006	153.675068	153.675068	56.47%
F 2007	161.057000	161.057000	4.80%
F 2008	161.301000	161.301000	0.15%
F 2009	167.267000	167.267000	3.70%



Data Source(s): SABHRS, Global Insight, Department of Revenue

Contacts: Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Driver's License Fees

**Revenue Description:** A resident of Montana must have a valid driver's license to operate a motor vehicle on any highway in the state. A driver's license is issued only if the applicant passes specified examinations and pays fees. The fees are collected by Department of Justice, Motor Vehicle Division staff or county treasurers and are forwarded to the state treasurer for deposit. The fees included in this source are from regular driver's licenses, commercial driver's licenses, motorcycle endorsements, duplicate driver's licenses, and renewal notices. Between October 1, 1995 and October 1, 1999, one-half of the licenses issued for those between the ages of 21 and 67 were 4-year licenses and one-half were 8-year licenses. Drivers outside these age brackets were assigned driver's licenses with terms which depend on how many years the driver is less than 21 or less than 75 years old. Between October 1, 1999 and July 1, 2005, all licenses for those 21-67 years of age were valid for 8 years. With the enactment of House Bill 192 by the 2005 legislature, commercial licenses are valid for 5 years.

#### Statutory Reference:

Tax Rates (MCA) – Duplicate license (61-5-114), all others (61-5-111(6))

Tax Distribution (MCA) – 61-5-121

Date Due – upon application

#### Applicable Tax Rate(s):

Driver's license fees are:

- driver's license, except a commercial driver's license - \$5.00 per year or fraction of a year
- motorcycle endorsement - \$0.50 per year or fraction of a year
- commercial driver's licenses (includes the basic license fee of \$5.00):
  - interstate - \$10.00 per year or fraction of a year
  - intrastate - \$8.50 per year or fraction of a year
- duplicate license - \$10.00
- renewal notice - \$0.50

**Distribution:** The distribution of license fee revenue varies by the type of license and who collects the fee. The table shows the current statutory distribution. Note: the portion allocated to counties applies only when the county collects the fee. Otherwise, the county allocation is added to the general fund distribution.

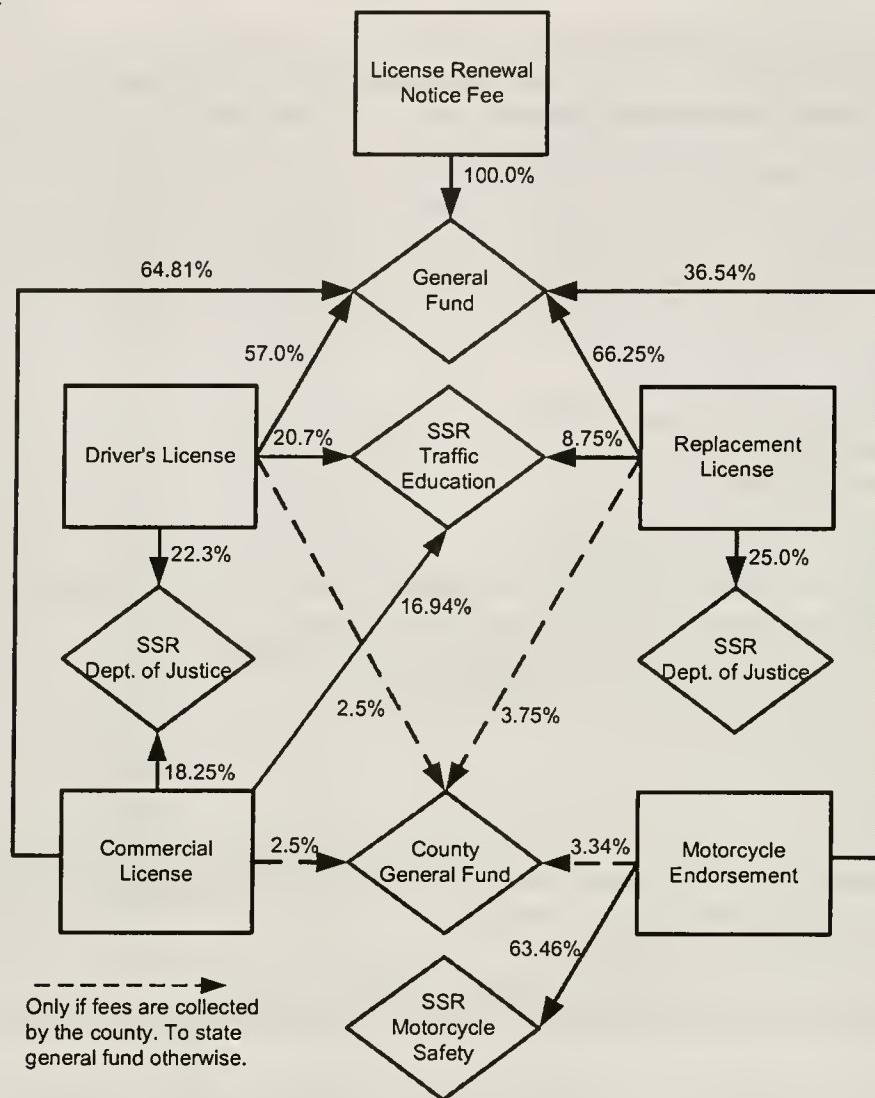
Allocation	Commercial				
	Driver's License	Replacement License	Motorcycle Endorsement	Driver's License	Renewal Notice
Montana Highway Patrol	0.00%	0.00%	0.00%	0.00%	0.00%
County or State General Fund	2.50%	3.75%	3.34%	2.50%	0.00%
Motorcycle Safety Account	0.00%	0.00%	63.46%	0.00%	0.00%
Traffic Education Account	20.70%	8.75%	0.00%	16.94%	0.00%
State General Fund (remainder)	<u>76.80%</u>	<u>87.50%</u>	<u>33.20%</u>	<u>80.56%</u>	<u>100.00%</u>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Driver's License Fees

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

- FY 2004 – 0.22%
- FY 2005 – 0.22%
- FY 2006 – 0.22%

#### Revenue Estimate Methodology:

Deriving an estimate of driver's license revenue is a matter of determining an estimate for the number of each of the six various licenses/fees. Once determined, each number can be multiplied by the applicable fee and the resulting products added together to derive the total revenue estimate. Since the number of licenses depends on the number of drivers, an estimate of the number of people in the driving age bracket is also used in determining the estimate.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Driver's License Fees

#### Data

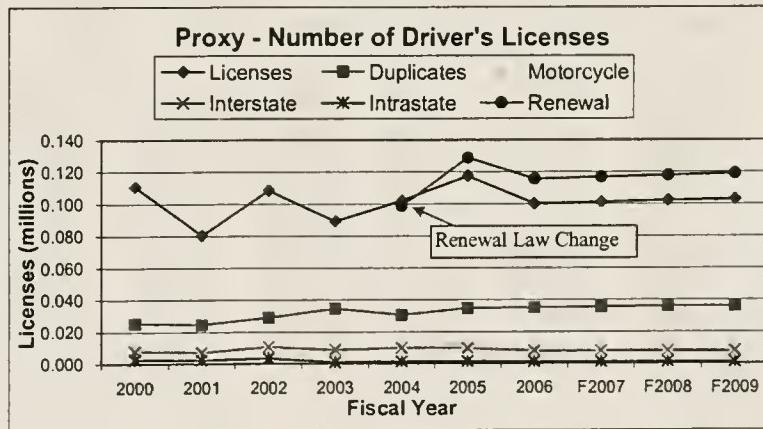
There are six different sources of revenue - five different driver's licenses and the renewal notice. The best source of data for the number of licenses and the renewal notice is contained in the history of revenue collections for each of these six items. This information is readily available from the state accounting system (SABHRS) which records revenue from each source separately. By knowing the actual revenue collected from a specific fee and the amount of the fee, the number of licenses can be calculated. To adjust for population, population estimates for Montana are used (see "Montana Population" in the Montana Economic Outlook section at the beginning of this publication).

#### Analysis

The methodology used to determine the number of each license/fee differs slightly but, as shown in the figure below, since fiscal 2004 the numbers do not vary by much:

1. The proxy numbers for driver's and motorcycle licenses are derived by multiplying the population estimate for those 16 years or older for each year by the ratio between the number of licenses in the last known fiscal year and the population for that year.
2. For duplicate licenses, the proxy number is derived by multiplying the number of driver's licenses by the previous year's ratio between the number of duplicates and drivers licenses. Because the driver's license proxy includes the effects of population change, these effects are also included in the proxy for duplicate licenses.
3. The proxies for the number of interstate and intrastate licenses are the amounts from the last known fiscal year.
4. To approximate the number of renewal notices, the ratio between the previous years' number of notices to the proxy number of licenses is multiplied by the estimated number of licenses. Since the license proxy includes the effects of population change, these effects are also included in the proxy for renewal notices.

If necessary, adjustments are made; usually based on legislation enacted the previous legislative session. For example, the renewal notice was first authorized in October 2003 and, so, was in effect for 2/3 of fiscal 2004. Using fiscal 2003 actual collections required an adjustment to reflect a full year's revenue so future years could be estimated. Once the proxies for the numbers of various licenses are estimated, the revenue from each can be derived by multiplying the number by the applicable fee.



#### Adjustments and Distribution

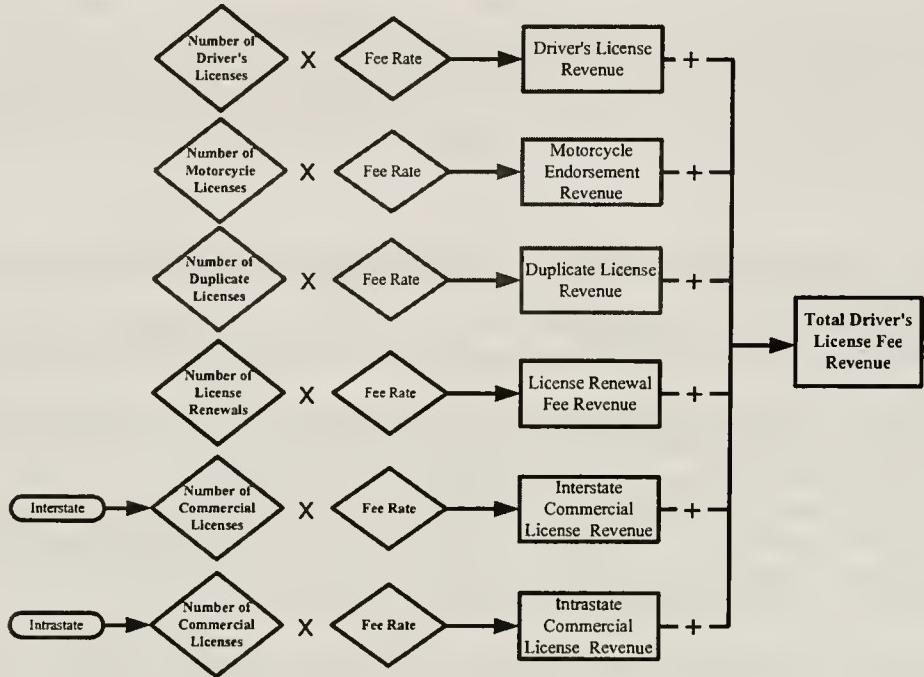
Once the proxy number for each license has been estimated, adjustments if any, are made. After any adjustments, the applicable distribution percentage of the revenue for each license fee is applied (see the "Distribution" section).

# Legislative Fiscal Division

## Revenue Estimate Profile

### Driver's License Fees

#### Forecast Methodology



#### Revenue Estimate Assumptions

	<u>t</u>	Total Fee Millions	GF Fee Millions	GF Fee Licenses Millions	GF Fee Duplicates Millions	GF Fee Cycle Millions	GF Fee Commercial Millions	GF Fee Renewal Millions
	Fiscal							
Actual	2000	3.835971	2.333182	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2001	3.062533	1.895595	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2002	4.172805	2.580000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2003	3.420939	2.119499	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2004	4.894628	3.021405	2.294933	0.198084	0.014374	0.417624	0.049367
Actual	2005	5.562399	3.373220	2.639363	0.224831	0.017425	0.408382	0.064446
Actual	2006	4.872301	3.828459	3.141560	0.316321	0.012336	0.353398	0.057787
Forecast	2007	4.918000	3.918000	3.173860	0.319574	0.012462	0.353398	0.058381
Forecast	2008	4.961000	3.952000	3.204212	0.322629	0.012582	0.353398	0.058940
Forecast	2009	5.000000	3.983000	3.231893	0.325414	0.012690	0.353398	0.059449

License Count Millions	<u>t</u>	Proxy Licenses	Proxy Duplicates	Proxy Cycle	Proxy Interstate	Proxy Intrastate	Proxy Renewal
Fiscal							
Actual	2000	0.110658	0.025272	0.010240	0.007801	0.002477	0.000000
Actual	2001	0.080396	0.024359	0.006932	0.006961	0.002210	0.000000
Actual	2002	0.108432	0.028832	0.010405	0.010579	0.003359	0.000000
Actual	2003	0.089124	0.034501	0.007652	0.008641	0.000722	0.000000
Actual	2004	0.101997	0.030416	0.010112	0.009739	0.001115	0.098734
Actual	2005	0.117305	0.034523	0.012258	0.009390	0.001281	0.128892
Actual	2006	0.099986	0.035098	0.008678	0.007737	0.001000	0.115574
Forecast	2007	0.101014	0.035459	0.008767	0.007737	0.001000	0.116762
Forecast	2008	0.101980	0.035798	0.008851	0.007737	0.001000	0.117879
Forecast	2009	0.102861	0.036107	0.008927	0.007737	0.001000	0.118897

# Legislative Fiscal Division

## Revenue Estimate Profile

### Driver's License Fees

<u>GF Fee Rate in \$</u>	<u>Fiscal</u>	<u>Proxy Licenses</u>	<u>Proxy Duplicates</u>	<u>Proxy Cycle</u>	<u>Proxy Interstate</u>	<u>Proxy Intrastate</u>	<u>Proxy Renewal</u>
Actual	2000						
Actual	2001						
Actual	2002						
Actual	2003						
Actual	2004	22.500000	6.512500	1.421520	39.700000	27.790000	0.500000
Actual	2005	22.500000	6.512500	1.421520	39.700000	27.790000	0.500000
Actual	2006	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2007	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2008	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000
Forecast	2009	31.420000	9.012500	1.421520	41.155000	34.981750	0.500000

<u>Total Fee Rate in \$</u>	<u>Fiscal</u>	<u>Proxy Licenses</u>	<u>Proxy Duplicates</u>	<u>Proxy Cycle</u>	<u>Proxy Interstate</u>	<u>Proxy Intrastate</u>	<u>Proxy Renewal</u>
Actual	2000	30.0000	5.0000	3.7500	37.5000	26.2500	0.0000
Actual	2001	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2002	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2003	32.0000	5.0000	4.0000	40.0000	28.0000	0.0000
Actual	2004	40.0000	10.0000	4.0000	40.0000	28.0000	0.5000
Actual	2005	40.0000	10.0000	4.0000	40.0000	28.0000	0.5000
Actual	2006	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2007	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2008	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000
Forecast	2009	40.0000	10.0000	4.0000	50.0000	42.5000	0.5000

Total Fee = Licenses \* Fee + Duplicates \* Fee + Cycle \* Fee + Interstate \* Fee + Intrastate \* Fee + Renewal \* Fee

GF Fee = Licenses \* GF Fee + Duplicates \* GF Fee + Cycle \* GF Fee + Interstate \* GF Fee +

Intrastate \* GF Fee + Renewal \* GF Fee

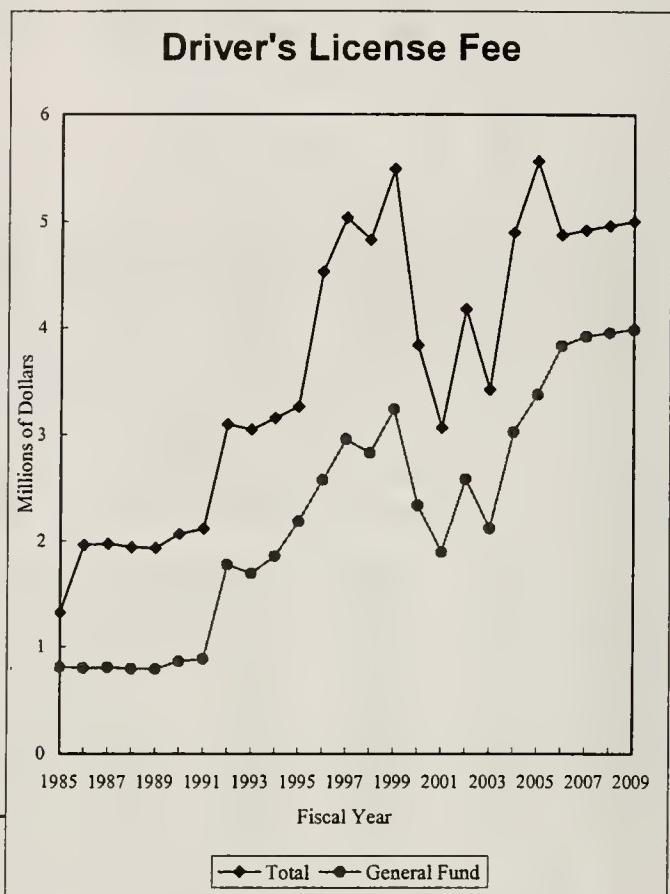
# Legislative Fiscal Division

## Revenue Estimate Profile

### Driver's License Fees

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.320716	0.803983	Not App.
A 1986	1.960814	0.796349	-0.95%
A 1987	1.971861	0.802900	0.82%
A 1988	1.939289	0.790325	-1.57%
A 1989	1.934339	0.788321	-0.25%
A 1990	2.065777	0.862954	9.47%
A 1991	2.114827	0.882589	2.28%
A 1992	3.091645	1.775859	101.21%
A 1993	3.043986	1.693173	-4.66%
A 1994	3.151465	1.855408	9.58%
A 1995	3.259640	2.184202	17.72%
A 1996	4.525185	2.574068	17.85%
A 1997	5.033910	2.953533	14.74%
A 1998	4.824378	2.827707	-4.26%
A 1999	5.491612	3.233718	14.36%
A 2000	3.835971	2.333182	-27.85%
A 2001	3.062533	1.895595	-18.75%
A 2002	4.172805	2.580000	36.11%
A 2003	3.420939	2.119499	-17.85%
A 2004	4.894628	3.021405	42.55%
A 2005	5.562399	3.373220	11.64%
A 2006	4.872301	3.828459	13.50%
F 2007	4.918000	3.918000	2.34%
F 2008	4.961000	3.952000	0.87%
F 2009	5.000000	3.983000	0.78%



**Data Source(s):** SABHRS, Department of Administration, County Treasurer Offices

**Contacts:** Department of Justice

# Legislative Fiscal Division

## Revenue Estimate Profile

### Estate Tax

**Revenue Description:** Due to passage of Legislative Referendum 116 by the electorate in November 2000, the state inheritance tax was repealed. The tax had been imposed on the transfer of any decedent's property, interest in property, or income from property within the state, to any other person or corporation except a surviving spouse, child or lineal descendant, stepchild, or governmental or charitable organization. Although the referendum was effective immediately, it applied to deaths occurring after December 31, 2000. Thus, inheritance tax revenue will continue to produce revenue, but the amount of revenue will decrease each year. In addition to the inheritance tax, an estate tax is imposed on estates transferred to heirs at death. The Montana estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

Congress passed the "Economic Growth and Tax Relief Reconciliation Act of 2001" which scheduled a step down approach to the repeal of the federal estate tax. Provisions of the act included the elimination of the state estate tax credit, the source of Montana's estate tax revenue. The estate credit of those who died in 2002, 2003, and 2004 is reduced by 25 percent per each year until 2005 when the credit will equal zero. Many years may pass before the time that estates are finally settled and the taxes of the estates are paid, and estate tax revenues are expected to become insignificant by the end of the decade. Federal estate tax laws will return to a pre-2002 level if Congress does not take further action to make the repeal of the tax permanent.

Since 1980, revenues from inheritance taxes have fluctuated because of federal and state law changes, changes in wealth, changes in the death rate of the population, accounting procedures, and the processing of several large estates.

#### Statutory Reference:

Tax Rate (MCA) – 72-16-905

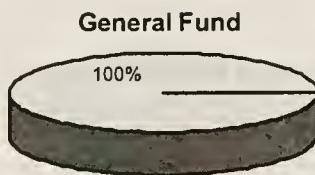
Tax Distribution (MCA) – 72-16-912

Date Due – 18 months after death (72-16-909)

**Applicable Tax Rate(s):** The estate tax is equal to the maximum estate tax credit allowed under federal estate tax law.

**Distribution:** All proceeds are deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 0.83%

FY 2005 – 0.27%

FY 2006 – 0.10%

#### Revenue Estimate Methodology:

##### Data

To create the estate tax projection, data are supplied by the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides the details of fiscal year tax filers on individual estates. SABHRS data provides aggregate historic collections of the estate tax.

# Legislative Fiscal Division

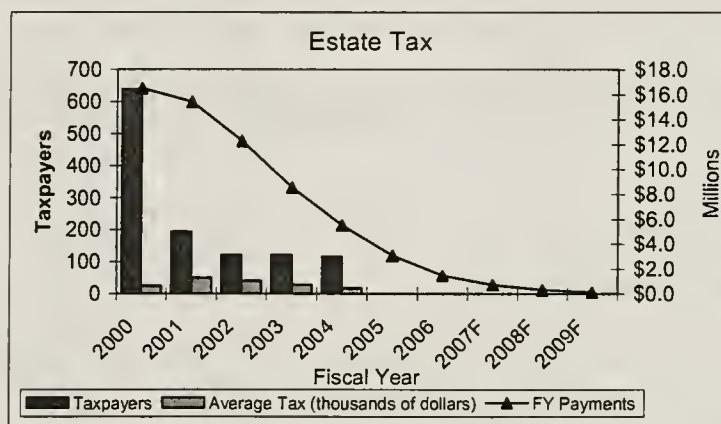
## Revenue Estimate Profile

### Estate Tax

To prepare fiscal year data from DOR for analysis, several steps must occur. First, the data is separated based on the individual's year of death. This is a necessary step because the estate tax laws are imposed based on the year of death. Next, all new and prior year data is combined by year of death, and that data is sorted based on total tax payment. For the estate tax analysis, the tax filers who do not owe estate tax are ignored.

#### Analysis

The estate tax has undergone many changes over the past decade. Effective in fiscal 2001, the state eliminated the inheritance tax. Then, with the federal tax relief measures passed by Congress in 2001, the state's refund of the federal estate tax credit was reduced annually; by 25 percent in fiscal 2002, 50 percent in fiscal 2003, and 75 percent in fiscal 2004, and then eliminated for deaths occurring in and after fiscal 2005. At the same time, Congress enacted increasing levels of estate income exemptions, dramatically reducing the amount of tax imposed on estates. At this time, the state no longer collects any current year "death" tax of any sort. However, because of the length of time needed for estates to go through probate and emerge from trusts, estate tax payments are anticipated to continue for many years at steadily decreasing amounts.



Future collections of the estate tax are developed with a complex system of averaging. First, a ratio of taxpayers to deaths is created. The product of that ratio is then adjusted in recognition of the changes in the laws governing the "death" taxes. Next, the average tax paid by taxpayer is calculated. When those quantities are multiplied, the result is the expected estate taxes for the given year of death. The figure above shows the number of taxpayers and the average tax as calculated with this methodology from deaths occurring in 2000 through deaths occurring in fiscal 2004, the last year the federal government refunded the estate tax credit.

Finally, payments of the estate tax are distributed across the years based on an analysis undertaken by the DOR in the late 1990's. The distribution of the estate tax over the years is presented by the curve in the figure above. In their analysis, the DOR found that payments of the "death" taxes are spread over a large number of calendar year quarters. Factoring the quarterly payment proportions into calendar year proportions, it was determined that payments are spread across approximately 8 years at rates as seen in the figure at the right.

Estate Tax Payment Schedule	
Year of Death	33.3%
1 Year Following Death	41.7%
2 Years Following Death	8.7%
3 Years Following Death	8.1%
4 Years Following Death	4.1%
5 Years Following Death	2.1%
6 Years Following Death	2.1%
7 Years Following Death	2.1%

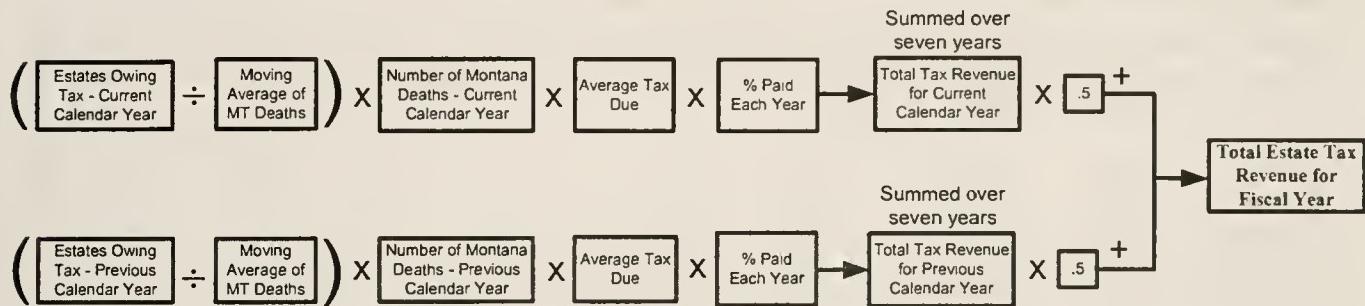
Finally, the calendar year payment distributions are adjusted for the fiscal year. As a result of this analysis, the estate tax is projected to be \$706,000, \$310,000, and \$113,000 for fiscal years 2007 through 2009, respectively.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Estate Tax

#### Forecast Methodology



#### Revenue Estimate Assumptions

	<u>t</u> <u>Fiscal</u>	Total Tax Millions	GF Tax Millions	Annual Growth
Actual	2000	19.038785	19.038785	0.040275
Actual	2001	20.285642	20.285642	0.065490
Actual	2002	13.816144	13.816144	-0.318920
Actual	2003	13.305983	13.305983	-0.036925
Actual	2004	11.431103	11.431103	-0.140905
Actual	2005	4.190613	4.190613	-0.633403
Actual	2006	1.773169	1.773169	-0.576871
Forecast	2007	0.706000	0.706000	-0.601674
Forecast	2008	0.310000	0.310000	-0.560711
Forecast	2009	0.113000	0.113000	-0.634393

Total Tax = Previous Fiscal Total Tax \* Annual Growth

GF Tax = Total Tax

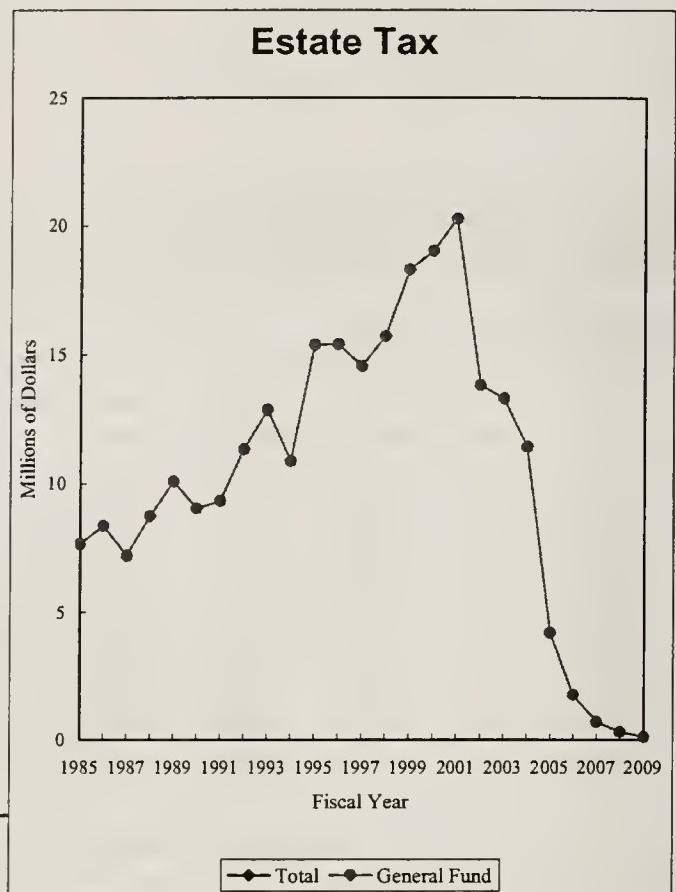
# Legislative Fiscal Division

## Revenue Estimate Profile

### Estate Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	7.656622	7.656622	Not App.
A 1986	8.364764	8.364764	9.25%
A 1987	7.212092	7.212092	-13.78%
A 1988	8.745457	8.745457	21.26%
A 1989	10.091548	10.091548	15.39%
A 1990	9.049129	9.049129	-10.33%
A 1991	9.339854	9.339854	3.21%
A 1992	11.338204	11.338204	21.40%
A 1993	12.869460	12.869460	13.51%
A 1994	10.885745	10.885745	-15.41%
A 1995	15.382449	15.382449	41.31%
A 1996	15.404110	15.404110	0.14%
A 1997	14.562382	14.562382	-5.46%
A 1998	15.726605	15.726605	7.99%
A 1999	18.301680	18.301680	16.37%
A 2000	19.038785	19.038785	4.03%
A 2001	20.285642	20.285642	6.55%
A 2002	13.816144	13.816144	-31.89%
A 2003	13.305983	13.305983	-3.69%
A 2004	11.431103	11.431103	-14.09%
A 2005	4.190613	4.190613	-63.34%
A 2006	1.773169	1.773169	-57.69%
F 2007	0.706000	0.706000	-60.18%
F 2008	0.310000	0.310000	-56.09%
F 2009	0.113000	0.113000	-63.55%



**Data Source(s):** SABHRS

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

**Revenue Description:** The tax is levied against taxable income, which is defined as Montana personal income adjusted for exemptions and deductions. Once tax liability is determined, the amount of tax due is computed by subtracting allowable credits.

#### Statutory Reference:

Tax Rate (MCA) – 15-30-103

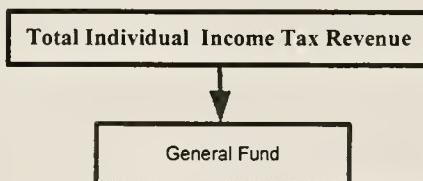
Tax Distribution (MCA) – 15-1-501(1)

Date Due – 15<sup>th</sup> day of the fourth month of the filer's fiscal year (15-30-144). Withholding taxes due monthly, quarterly, or on an accelerated schedule depending on income (15-30-204). Estimated taxes due on the 15<sup>th</sup> day of the 4<sup>th</sup>, 6<sup>th</sup>, and 9<sup>th</sup> month and the month following the close of the tax year.

**Applicable Tax Rate(s):** Tax rates vary from 1.0% to 6.9%, depending on the level of taxable income. Tax brackets, personal exemption amounts, and the standard deduction are adjusted by the rate of inflation in each year. SB 407, enacted by the 2003 legislature, created a new capital gains income tax credit. As a result the tax rate on capital gains income is less than the tax rate on ordinary income by 1 percent in tax years 2005 and 2006, and by 2 percent in tax year 2007 and beyond.

**Distribution:** All proceeds are deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** Withholding and estimated taxes are collected monthly, bi-weekly, and weekly.

#### % of Total General Fund Revenue:

FY 2004 – 43.82%

FY 2005 – 46.13%

FY 2006 – 45.01%

#### Revenue Estimate Methodology:

##### Data

There are three kinds of data required to make forecasts of individual income tax revenue. First is historical individual income tax return data, second is state and national historic data on income, inflation, employment, and other economic variables, and third is forecasts of economic activity that determine income and deductions.

Actual individual income tax return data are supplied annually by the Department of Revenue (DOR). This data are usually available in November and are for the prior tax year. The data include line-by-line tax return information for each state income taxpayer (except those that have been removed because of the existence of certain federal information).

The second set of data required is historical information on Montana incomes by type of income, inflation rates, employment, and other economic variables. These data are available from individual income tax returns, Bureau of Economic Analysis, Bureau of Labor Statistics, and Global Insight, a forecasting firm that provides forecasts of national and Montana economic activity.

The third set of data includes forecasts of economic conditions that determine income and deductions. These data are used to produce future growth rates for each income and deduction item, as explained in the methodology section below. Global Insight

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

forecasts a myriad of state and national economic variables that are used to assess overall state and national economic activity.

#### Analysis

An individual income tax simulation model is used to forecast future Montana calendar year individual income tax liability for all residents. These forecasts are converted to fiscal year liability and are adjusted for audits and possibly one-time events. The individual income tax simulation model reflects the effects of SB 407, the legislation that changed the individual income tax system in Montana and was passed by the 2003 legislature. This legislation collapsed the tax brackets (with a top tax rate of 11 percent in the old system) into a system with 7 tax brackets (with a top rate of 6.9 percent). The model also limits deductibility of federal taxes paid to \$5,000 for single taxpayers and \$10,000 for married taxpayers.

The calendar year state tax liability forecasts are derived by applying growth rates to each resident taxpayer's income and deduction item. Since the latest year for which tax return data are available is tax year 2005, growth rates must be formulated for tax years 2006 through 2009. These growth rates are applied to each taxpayer's tax return data for each year. A sub-model within the simulation model also forecasts the federal individual income tax liability for each resident taxpayer. The result is a forecast of calendar year state individual income tax liability for each resident, the sum of which results in a statewide forecast of state individual income tax liability for each year.

The statewide forecast of resident individual income tax liability is multiplied by an all-filers percentage. This step is required so the estimates include the tax liability for non-residents. "All-filers" include residents, nonresidents, and part-time residents. In tax year 2005, nonresidents and part-time residents were 8.6 percent of resident filers. The next step is to adjust the all-filers calendar year tax liability by the expected future growth in the number of taxpayers. This results in a forecast of total calendar year individual income tax liability before credits. From this amount, an estimate of allowable credits are deducted. The result is a calendar year individual income tax liability for each future year.

The calendar year liabilities are then converted to fiscal year liabilities by summing an allocation of the prior calendar year's liabilities with an allocation of the current calendar year tax liability. A prior analysis indicated that the percentage to apply to the prior year is 47.9 percent and to the current year is 52.1 percent.

Once fiscal year liabilities are determined, a calculation of the growth rates between fiscal years is developed. These growth rates are then applied to the latest fiscal year (FY 2006) collections of individual income tax by the state. Before the growth rates are applied, however, the latest collection of individual income tax revenue is adjusted by subtracting out audit and other unusual collections. For instance, in FY 2006, total individual income tax collections were \$768.9 million, of which \$22.7 million was audit collections. Total collections before audits were \$746.2 million. This amount was adjusted further by an estimate of excess payments made by taxpayers in FY 2006 due to the effects of SB 407. It is believed that in FY 2006, taxpayers did not adjust their estimated payments for tax years 2005 and 2006, and overpaid \$24.0 million in taxes. These overpayments will be returned as refunds in FY 2007. Current refund activity in October 2006 supports this supposition. Thus, the growth rates for the estimates in fiscal years 2007 through 2009 are applied to an adjusted base number of \$722.2 million. Once the amount of anticipated revenue before audits has been forecast, an estimate of future audit receipts as provided by DOR is added. Finally the estimates of individual income tax revenue are adjusted by the effects of legislation passed by the 59<sup>th</sup> Legislature.

#### Growth Rates

The table below contains the growth rates used to forecast calendar years 2006 through 2009 individual income and deduction items.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

Income Tax Growth Rates 2006 - 2009					
		Calendar Year			
		2006	2007	2008	2009
Full Year Resident Returns (Annual)		1.42%	1.40%	1.38%	1.37%
All Filer Adjustment		8.60%	8.60%	8.60%	8.60%
Inflation State		4.32%	2.70%	2.20%	2.20%
Inflation Federal		3.11%	3.90%	3.15%	2.20%
<b>Tax Return Data</b>	<b>Line</b>				
<b>INCOME</b>					
Wages and salaries	6	9.50%	4.91%	4.00%	4.31%
Interest income	7	7.85%	5.51%	6.80%	9.98%
Dividend income	8	11.19%	11.70%	10.90%	8.67%
Net business income	9	1.53%	2.26%	2.63%	1.71%
Capital gains	10	0.00%	0.00%	0.00%	0.00%
Supplemental gains	11	-1.58%	-2.30%	-2.88%	-3.43%
Rents, royalties, etc.	12	10.12%	8.74%	9.00%	13.61%
IRA distributions	13b	7.22%	7.77%	5.38%	6.39%
Taxable pensions	14b	7.22%	7.77%	5.38%	6.39%
Taxable soc. sec.	15b	11.66%	2.53%	2.55%	2.21%
Farm income	16	21.97%	14.41%	11.16%	7.40%
Other income	17	-10.79%	-9.74%	-8.87%	-8.15%
Adjustments to income	19	7.27%	7.27%	7.27%	7.26%
<b>ADDITIONS:</b>					
Interest on local govt. bonds	21	-2.71%	4.11%	-14.22%	-11.98%
Federal income tax refunds	22	8.59%	8.59%	8.59%	8.59%
Other additions	23	0.00%	0.00%	0.00%	0.00%
<b>REDUCTIONS:</b>					
Farm risk management account	26	0.00%	0.00%	0.00%	0.00%
Elderly interest exclusion	27				
Exclusion for savings bonds	28	23.30%	1.91%	1.41%	5.13%
Exempt pension income	29				
Unemployment income	30	0.00%	0.00%	0.00%	0.00%
Medical savings account excl.	31	11.65%	10.43%	9.45%	8.63%
Family education account excl.	32	12.44%	11.06%	9.96%	9.06%
First-time homebuyers acct. excl.	33	4.42%	4.42%	4.42%	4.42%
Other reductions	35	7.00%	7.00%	7.00%	7.00%
Health Care Professional Loan Pmt excl	34	0.00%	0.00%	0.00%	0.00%
<b>TAX ITEMS:</b>					
Montana tax withheld	54	9.50%	4.91%	4.00%	4.31%
Payments of estimated tax	55	6.02%	5.47%	5.23%	6.90%
<b>ITEMIZED DEDUCTIONS:</b>					
Medical insurance premiums	68	5.53%	5.53%	5.53%	5.53%
Medical deduction	71	8.05%	8.05%	8.05%	8.05%
Long-term care insurance	72	6.83%	6.39%	6.01%	5.67%
Balance of federal tax	74	1.86%	0.00%	0.00%	0.00%
Additional federal tax	75	1.42%	1.42%	1.42%	1.42%
Property taxes	76	4.56%	4.56%	4.56%	4.56%
Other deductible taxes	77	6.05%	6.05%	6.05%	6.05%
Home mortgage interest	78	6.57%	6.57%	6.57%	6.57%
Deductible investment interest	79	4.15%	-0.48%	-0.60%	0.27%
Contributions	80	3.82%	2.79%	2.47%	2.23%
Child/dependent care expenses	81	-3.10%	-3.10%	-3.10%	-3.10%
Casualty and theft losses	82	0.15%	0.15%	0.15%	0.15%
Tier I - Miscellaneous	87	6.79%	6.79%	6.79%	6.79%
Tier II - Miscellaneous	88	6.76%	3.01%	3.01%	3.01%
Gambling Losses	89	8.34%	8.34%	8.34%	8.34%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

The remaining assumptions regarding credits are in the following table.

	Credit Assumptions (Millions)			
	Calendar Year			
	2006	2007	2008	2009
Homeowner/Renter Credits	(13.13)	(13.79)	(14.45)	(15.10)
Other Credits	(36.29)	(38.06)	(42.34)	(46.61)
Capital Gain Credit	(15.36)	(30.72)	(30.72)	(30.72)

One of the other credits is the endowment credit, which expires Dec. 31, 2007

#### Audits

Audit estimates are provided by the DOR. An adjustment is made for excess estimated individual income tax payments in FY 2006. Since tax year 2005 did not contain the effects of three pieces of legislation, all of which became effective in tax year 2006, the estimated impacts are included in the estimates. These bills were: HB 439 eliminates double credits for foreign individual income taxpayers; HB 667 creates a tax credit for health insurance purchases by small business; and SB 340 creates a credit for residential geothermal systems.

	Audit Assumptions (Millions)			
	Fiscal Year			
	2006	2007	2008	2009
Audits	22.74	25.00	25.00	25.00
Excess Estimated Payments	(24.00)	-	-	-
Legislation from Prior Session	-	(3.03)	(3.63)	(3.63)
2 % Capital Gain Credit Delay		15.36	(15.36)	-
Tax Benefit Rule for Federal Refunds	-	(7.98)	-	-

#### Legislation

The capital gain credit is 1 percent in tax years 2005 (\$15.4 million) and 2006, and will increase to 2 percent in tax year 2007 and beyond. However, it is expected that the \$15.4 million increase in the capital gain credit in tax year 2007 will not impact collections until fiscal 2008 because taxpayers will not adjust their estimated tax behavior during tax year 2007. Instead, greater refunds will be issued in the first 4 months of calendar 2008.

#### 2% Capital Gain Credit Delay

Under the old individual income tax law prior to SB 407, all federal tax payments were fully deductible and federal individual income tax refunds were taxable in the following year. SB 407 limits the deductibility of federal individual income payments to \$5,000 for single, head of household and married separate filers, and to \$10,000 for married joint filers. Taxpayers are not required to include federal individual income tax refunds if they were limited by the ceiling on the deductibility on federal individual income payments.

#### Tax Benefit Rule for Federal Refunds

Individual income tax collections in FY 2006 were 8.7 percent higher than FY 2005 collections. The main reasons for this change were increases in wages (6.2 percent), increased capital gains (30.3 percent), increased royalty income (32.8 percent) and over payments due to the effects of SB 407. Because taxpayers did not adjust their expected payments for the impact of SB 407, over payments occurred in FY 2006 with refunds expected in FY 2007.

#### Excess Estimated Payments

Wages in the first half of calendar 2006 are above the first two quarters of calendar 2005 by 9.8 percent. The growth rate assumed for wage growth in calendar 2006 is slightly less at 9.5 percent. Low unemployment and strong employment growth in mining, health care, construction and services are expected to continue through the end of this year. It is expected that growth will slow to between 4 and 5 percent in calendar years 2007, 2008 and 2009 as the national economy returns to a more moderate growth rate.

Capital gains income grew over 30 percent in tax year 2005 from tax year 2004. Over \$1.5 billion of Montana's individual income subject to tax is from net capital gains. Capital gains as a share of total individual income subject to tax increased to 8.9 percent in

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

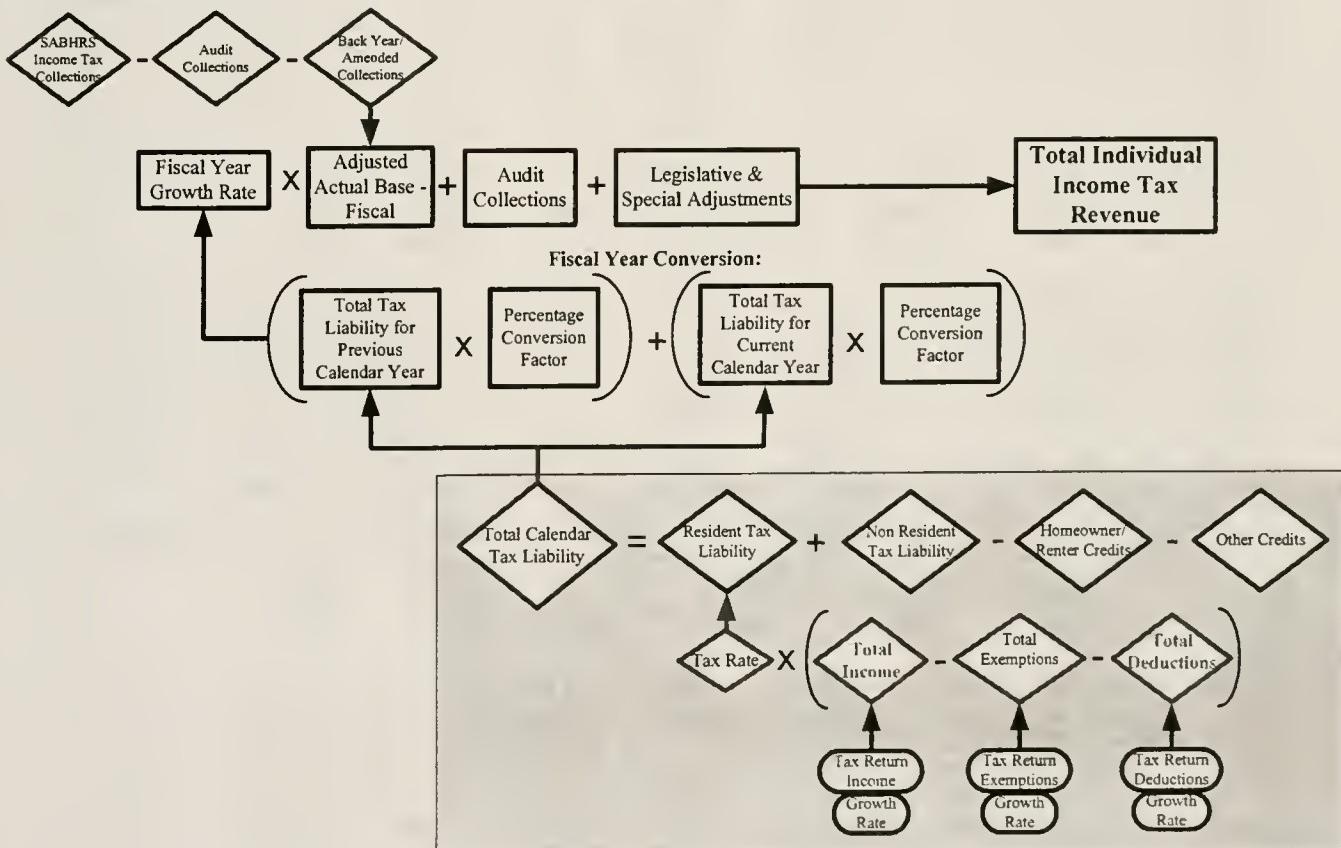
tax year 2005 compared with 5.7 percent in tax year 2001. These net gains are from equity, land sales, and sales of businesses. The extent to which each of these factors has contributed to the large increase in capital gains income is unknown. Because this source of income is highly volatile, future capital gains income are expected to equal the amount in calendar 2005.

Rent, royalty and partnership income is another large income component and grew almost by a third in calendar 2005 over 2004. Between calendar 2000 and 2004, this income grew by an average 9.4 percent per year. The reason for the extraordinary growth in 2005 is thought to be associated with growth in oil and natural gas royalties. Future growth in this source is expected to return to the average growth rate of 9 to 10 percent, as oil and gas prices moderate and production stabilizes.

The forecasts of individual income tax collections are shown in the table below.

Income Tax Forecast 2007 - 2009		
In Millions		
Fiscal Year	Amount	Percent Change
A Fiscal 2006	\$768.92	8.7%
F Fiscal 2007	\$793.85	3.2%
F Fiscal 2008	\$797.03	0.4%
F Fiscal 2009	\$851.11	6.8%

### Forecast Methodology



# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

#### Revenue Estimate Assumptions

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Legislation <u>Millions</u>	Fed Refund Tax Benefit <u>Percent</u>	Cap Gains Credit Delay <u>Millions</u>	Net Tax Liability <u>Millions</u>
Actual	2002	517.567691	517.567691	0.000000	0.000000	0.000000	517.567691
Actual	2003	535.830664	535.830664	0.000000	0.000000	0.000000	535.830664
Actual	2004	605.582309	605.348420	0.000000	0.000000	0.000000	605.348420
Actual	2005	707.343333	706.234579	0.000000	0.000000	0.000000	706.234579
Actual	2006	768.922343	768.922343	0.000000	0.000000	0.000000	768.922343
Forecast	2007	793.846640	793.846640	-3.025000	-7.975000	15.361935	789.484705
Forecast	2008	797.034816	797.034816	-3.626276	0.000000	-15.361935	816.023027
Forecast	2009	851.110199	851.110199	-3.626286	0.000000	0.000000	854.736485

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Annual Percent</u>	GF Tax <u>Annual Percent</u>	Legislation <u>Percent</u>	Fed Refund Tax Benefit <u>Percent</u>	Cap Gains Credit Delay <u>Percent</u>	Net Tax Liability <u>Percent</u>
Actual	2002						
Actual	2003	3.5286%	3.5286%	NA	NA	NA	3.5286%
Actual	2004	13.0175%	12.9738%	NA	NA	NA	12.9738%
Actual	2005	16.8038%	16.6658%	NA	NA	NA	16.6658%
Actual	2006	8.7057%	8.8763%	NA	NA	NA	8.8763%
Forecast	2007	3.2415%	3.2415%	NA	NA	NA	2.6742%
Forecast	2008	0.4016%	0.4016%	19.8769%	NA	NA	3.3615%
Forecast	2009	6.7846%	6.7846%	0.0003%	NA	NA	4.7442%

	<u>t</u> <u>Fiscal</u>	Total Liability <u>Millions</u>	Total Liability <u>Percent</u>	Collections less Aud & XS Refund <u>Millions</u>	Percent <u>Percent</u>	Excess Refund Adjustment <u>Millions</u>	Audits <u>Millions</u>
Actual	2002	494.726111		NA	NA	0.000000	21.812031
Actual	2003	518.882356	4.8828%	NA	NA	0.000000	23.626679
Actual	2004	585.933476	12.9222%	NA	NA	0.000000	29.922459
Actual	2005	646.370293	10.3146%	NA	NA	0.000000	37.240151
Actual	2006	696.265967	7.7194%	722.178752	NA	-24.000000	22.743591
Forecast	2007	737.053714	5.8581%	764.484705	5.8581%	0.000000	25.000000
Forecast	2008	762.639706	3.4714%	791.023027	3.4714%	0.000000	25.000000
Forecast	2009	799.963712	4.8941%	829.736485	4.8941%	0.000000	25.000000

	<u>t</u> <u>Cal.</u>	Resident Liability <u>Millions</u>	Population Adjustment <u>Percent</u>	Homeowner Credit <u>Millions</u>	All Other Credits <u>Millions</u>	All Filers Multiplier <u>Percent</u>	All Filers Liability <u>Millions</u>
Actual	2002	494.216195	1.000000	11.049173	19.408774	1.062535	494.664058
Actual	2003	538.246242	1.000000	11.889280	21.838995	1.068055	541.148315
Actual	2004	620.964952	1.000000	12.193124	26.948002	1.072926	627.108316
Actual	2005	652.487295	1.000000	11.580412	32.957621	1.086025	664.079482
Forecast	2006	696.865800	1.024400	13.132415	36.289756	1.086025	725.857763
Forecast	2007	708.409600	1.038800	13.789590	38.064635	1.086025	747.347113
Forecast	2008	728.767100	1.053100	14.446765	42.339513	1.086025	776.699500
Forecast	2009	761.706800	1.067500	15.103940	46.614391	1.086025	821.352498

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

	<u>t</u> Cal.	Resident Liability Percent	Population Adjustment Percent	Homeowner Credit Percent	All Other Credits Percent	All Filers Multiplier Percent	All Filers Liability Percent
Actual	2002						
Actual	2003	8.9091%		7.6033%	12.5212%	0.5195%	9.3971%
Actual	2004	15.3682%	0.0000%	2.5556%	23.3940%	0.4561%	15.8847%
Actual	2005	5.0763%	0.0000%	-5.0251%	22.3008%	1.2209%	5.8955%
Forecast	2006	6.8014%	2.4400%	13.4020%	10.1104%	0.0000%	9.3028%
Forecast	2007	1.6565%	1.4057%	5.0042%	4.8909%	0.0000%	2.9605%
Forecast	2008	2.8737%	1.3766%	4.7657%	11.2306%	0.0000%	3.9275%
Forecast	2009	4.5199%	1.3674%	4.5489%	10.0967%	0.0000%	5.7491%

	<u>t</u> Cal.	Wages Millions	Annual Growth	Interest Millions	Annual Growth	Dividends Millions	Annual Growth	Federal Inflation Growth
Actual	2002	9,265.904285		528.958537		264.875326		3.288798%
Actual	2003	9,649.686526	4.1419%	453.025235	-14.3552%	297.422847	12.2879%	1.592040%
Actual	2004	10,209.868547	5.8052%	411.888867	-9.0804%	379.386080	27.5578%	2.280677%
Actual	2005	10,840.673693	6.1784%	480.087683	16.5576%	463.027085	22.0464%	2.302782%
Forecast	2006	11,870.074018	9.4957%	517.789426	7.8531%	514.861484	11.1947%	3.106753%
Forecast	2007	12,452.354242	4.9054%	546.338513	5.5136%	575.076522	11.6954%	3.903683%
Forecast	2008	12,949.883498	3.9955%	583.513176	6.8043%	637.758163	10.8997%	3.154440%
Forecast	2009	13,507.491283	4.3059%	641.768387	9.9835%	693.081137	8.6746%	2.200000%

	<u>t</u> Cal.	Business Income Millions	Annual Growth	Capital Gains Millions	Annual Growth	Supplemental Gains Millions	Annual Growth	State Inflation Growth
Actual	2002	620.571881		637.443506		32.565301		1.067416%
Actual	2003	629.701263	1.4711%	790.912922	24.0758%	55.546743	70.5703%	2.112285%
Actual	2004	680.789997	8.1132%	1,193.177168	50.8608%	69.724283	25.5236%	3.266195%
Actual	2005	749.587514	10.1055%	1,554.054359	30.2451%	77.631349	11.3405%	2.530311%
Forecast	2006	761.019619	1.5251%	1,554.054359	0.0000%	76.401556	-1.5841%	4.318766%
Forecast	2007	778.208105	2.2586%	1,554.054359	0.0000%	74.643621	-2.3009%	2.700000%
Forecast	2008	798.659755	2.6280%	1,554.054359	0.0000%	72.496325	-2.8767%	2.200000%
Forecast	2009	812.300842	1.7080%	1,554.054359	0.0000%	70.012499	-3.4261%	2.200000%

	<u>t</u> Cal.	Rents, Royalties S-Corps Millions	Annual Growth	Farm Income Gains Millions	Annual Growth	Social Security Millions	Annual Growth
Actual	2002	1,014.593070		-157.524702		254.248840	
Actual	2003	1,019.724460	0.5058%	-146.211074	-7.1821%	267.287155	5.1282%
Actual	2004	1,283.270778	25.8449%	-139.623058	-4.5058%	305.542493	14.3124%
Actual	2005	1,704.629493	32.8347%	-125.935382	-9.8033%	359.184070	17.5562%
Forecast	2006	1,877.179749	10.1224%	-153.598246	21.9659%	401.060280	11.6587%
Forecast	2007	2,041.318926	8.7439%	-175.734857	14.4120%	411.210963	2.5310%
Forecast	2008	2,225.037630	9.0000%	-195.339585	11.1559%	421.704859	2.5519%
Forecast	2009	2,527.817342	13.6078%	-209.795670	7.4005%	431.045129	2.2149%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

	<u>t</u>	IRA		Pension		Other	
	<u>Cal.</u>	Income <u>Millions</u>	Annual <u>Growth</u>	Income <u>Millions</u>	Annual <u>Growth</u>	Income <u>Millions</u>	Annual <u>Growth</u>
Actual	2002	231.216869		1,019.171838		-5.377242	
Actual	2003	237.257497	2.6125%	1,070.481555	5.0345%	-47.935941	791.4596%
Actual	2004	271.069295	14.2511%	1,146.454816	7.0971%	-78.401984	63.5557%
Actual	2005	308.394240	13.7695%	1,216.408584	6.1017%	-70.992520	-9.4506%
Forecast	2006	330.669565	7.2230%	1,304.269812	7.2230%	-63.332757	-10.7895%
Forecast	2007	356.374301	7.7735%	1,405.657766	7.7735%	-57.164928	-9.7388%
Forecast	2008	375.539290	5.3778%	1,481.250805	5.3778%	-52.091826	-8.8745%
Forecast	2009	399.520271	6.3857%	1,575.839702	6.3857%	-47.845755	-8.1511%

	<u>t</u>	Total <u>Income Millions</u>	Annual <u>Growth</u>	IRA, Etc <u>Reductions Millions</u>	Annual <u>Growth</u>	Fed Adjusted <u>Gross Income Millions</u>	Annual <u>Growth</u>
	<u>Cal.</u>						
Actual	2002	13,706.647509		252.613291		13,454.034218	
Actual	2003	14,276.899188	4.1604%	292.240897	15.6871%	13,984.658291	3.9440%
Actual	2004	15,733.147282	10.2000%	322.437719	10.3329%	15,410.709563	10.1973%
Actual	2005	17,556.750168	11.5908%	367.926583	14.1078%	17,188.823585	11.5382%
Forecast	2006	18,990.448865	8.1661%	394.690161	7.2742%	18,595.758704	8.1852%
Forecast	2007	19,962.337533	5.1178%	423.385749	7.2704%	19,538.951784	5.0721%
Forecast	2008	20,852.466449	4.4590%	454.151745	7.2667%	20,398.314704	4.3982%
Forecast	2009	21,955.289525	5.2887%	487.136388	7.2629%	21,468.153138	5.2447%

	<u>t</u>	Bond <u>Interest Millions</u>	Annual <u>Growth</u>	FIT <u>Refunds Millions</u>	Annual <u>Growth</u>	Other <u>Additions Millions</u>	Annual <u>Growth</u>
	<u>Cal.</u>						
Actual	2002	43.230217		247.312164		150.548387	
Actual	2003	44.962241	4.0065%	256.907579	3.8799%	177.862268	18.1429%
Actual	2004	47.870779	6.4688%	271.610536	5.7231%	205.778955	15.6957%
Actual	2005	47.838094	-0.0683%	252.492445	-7.0388%	153.779954	-25.2693%
Forecast	2006	46.541767	-2.7098%	156.094749	-38.1784%	153.779954	0.0000%
Forecast	2007	48.452638	4.1057%	167.714948	7.4443%	153.779954	0.0000%
Forecast	2008	41.561410	-14.2226%	166.581417	-0.6759%	153.779954	0.0000%
Forecast	2009	36.583328	-11.9777%	176.737425	6.0967%	153.779954	0.0000%

	<u>t</u>	Farm Risk <u>Mgmt Excl. Millions</u>	Annual <u>Growth</u>	Int. Exc. <u>Elderly Millions</u>	Annual <u>Growth</u>	Savings <u>Bond Millions</u>	Annual <u>Growth</u>
	<u>Cal.</u>						
Actual	2002	0.061948		43.310418		59.642270	
Actual	2003	0.872912	NA	40.099155	-7.4145%	47.157089	-20.9334%
Actual	2004	0.009694	NA	37.998529	-5.2386%	43.523775	-7.7047%
Actual	2005	0.000000	-100.0000%	38.040881	0.1115%	49.152173	12.9318%
Forecast	2006	0.000000	0.0000%	38.810748	2.0238%	60.607032	23.3049%
Forecast	2007	0.000000	0.0000%	39.153860	0.8841%	61.767360	1.9145%
Forecast	2008	0.000000	0.0000%	39.597130	1.1321%	62.639114	1.4114%
Forecast	2009	0.000000	0.0000%	40.282719	1.7314%	65.855564	5.1349%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

	<b>t Cal.</b>	<b>Exempt Retirement Millions</b>	<b>Annual Growth</b>	<b>Unemployment Millions</b>	<b>Annual Growth</b>	<b>Med. Savings Millions</b>	<b>Annual Growth</b>
Actual	2002	166.435046		78.266420		9.937218	
Actual	2003	168.680258	1.3490%	85.701639	9.4999%	11.398465	14.7048%
Actual	2004	167.439300	-0.7357%	67.368156	-21.3922%	13.876118	21.7367%
Actual	2005	130.743336	-21.9160%	56.427479	-16.2401%	14.351849	3.4284%
Forecast	2006	146.992661	12.4284%	56.427479	0.0000%	16.023428	11.6471%
Forecast	2007	141.592443	-3.6738%	56.427479	0.0000%	17.695007	10.4321%
Forecast	2008	137.662950	-2.7752%	56.427479	0.0000%	19.366585	9.4466%
Forecast	2009	132.822502	-3.5162%	56.427479	0.0000%	21.038164	8.6313%

	<b>t Cal.</b>	<b>Family Education Millions</b>	<b>Annual Growth</b>	<b>First Time Home Millions</b>	<b>Annual Growth</b>	<b>Doctor Student Loan Excl. Millions</b>	<b>Annual Growth</b>
Actual	2002	5.479782		0.928656		0.000000	
Actual	2003	6.583685	20.1450%	1.067385	14.9387%	0.381209	NA
Actual	2004	7.474032	13.5235%	0.866326	-18.8366%	0.330155	-13.3927%
Actual	2005	6.984276	-6.5528%	0.732091	-15.4947%	0.258197	-21.7952%
Forecast	2006	7.853133	12.4402%	0.764452	4.4203%	0.258197	0.0000%
Forecast	2007	8.721989	11.0638%	0.798243	4.4203%	0.258197	0.0000%
Forecast	2008	9.590846	9.9617%	0.833527	4.4203%	0.258197	0.0000%
Forecast	2009	10.459703	9.0592%	0.870372	4.4203%	0.258197	0.0000%

	<b>t Cal.</b>	<b>Other Reductions Millions</b>	<b>Annual Growth</b>	<b>Additions to Income Millions</b>	<b>Additions Annual Growth</b>	<b>Reductions to Income Millions</b>	<b>Reductions Annual Growth</b>
Actual	2002	496.250650		441.090768		860.312408	
Actual	2003	530.169050	6.8349%	479.732088	8.7604%	892.110847	3.6962%
Actual	2004	585.906558	10.5132%	525.260270	9.4903%	924.792643	3.6634%
Actual	2005	656.586579	12.0634%	454.110493	-13.5456%	953.276861	3.0801%
Forecast	2006	702.557083	7.0014%	356.416470	-21.5133%	1,030.294213	8.0792%
Forecast	2007	751.746183	7.0014%	369.947540	3.7964%	1,078.160761	4.6459%
Forecast	2008	804.379228	7.0014%	361.922781	-2.1692%	1,130.755056	4.8781%
Forecast	2009	860.697344	7.0014%	367.100707	1.4307%	1,188.712043	5.1255%

	<b>t Cal.</b>	<b>MT Adjusted Gross Income Millions</b>	<b>Annual Growth</b>	<b>MAGI Premiums Millions</b>	<b>Annual Growth</b>	<b>Medical Deductions Millions</b>	<b>Annual Growth</b>
Actual	2002	13,034.812578		239.493910		222.983052	
Actual	2003	13,572.279532	4.1233%	234.737082	-1.9862%	236.626833	6.1188%
Actual	2004	15,011.177190	10.6017%	251.763151	7.2533%	258.564236	9.2709%
Actual	2005	16,689.657217	11.1815%	266.946118	6.0307%	273.368945	5.7257%
Forecast	2006	17,921.880961	7.3832%	281.720317	5.5345%	295.376989	8.0507%
Forecast	2007	18,830.738564	5.0712%	297.312198	5.5345%	319.156829	8.0507%
Forecast	2008	19,629.482429	4.2417%	313.767015	5.5345%	344.851106	8.0507%
Forecast	2009	20,646.541802	5.1813%	331.132528	5.5345%	372.613946	8.0507%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

	<u>t</u> <u>Cal.</u>	Long Term Care <u>Millions</u>	Annual Growth	Federal Income Tax Deducted <u>Millions</u>	Annual Growth	Real Estate <u>Millions</u>	Annual Growth
Actual	2002	15.887210		1,644.516826		274.873159	
Actual	2003	17.295360	4.1367%	1,612.852777	-1.9254%	291.351060	5.9947%
Actual	2004	18.472371	3.9700%	1,749.652428	8.4818%	313.019635	7.4373%
Actual	2005	19.124533	3.8200%	915.474509	-47.6768%	313.167636	0.0473%
Forecast	2006	20.430377	6.8281%	1,048.036035	14.4801%	327.439696	4.5573%
Forecast	2007	21.736221	6.3917%	1,124.298767	7.2767%	342.362180	4.5573%
Forecast	2008	23.042064	6.0077%	1,142.539531	1.6224%	357.964729	4.5573%
Forecast	2009	24.347908	5.6672%	1,155.800439	1.1607%	374.278337	4.5573%

	<u>t</u> <u>Cal.</u>	Other Taxes <u>Millions</u>	Annual Growth	Home Mortgage <u>Millions</u>	Annual Growth	Deductible Interest <u>Millions</u>	Annual Growth
Actual	2002	39.533367		752.226098		27.933231	
Actual	2003	40.720924	3.0039%	744.358655	-1.0459%	24.518357	-12.2251%
Actual	2004	44.860192	10.1650%	775.952387	4.2444%	27.543815	12.3396%
Actual	2005	56.835533	26.6948%	852.044469	9.8063%	38.056370	38.1667%
Forecast	2006	60.275518	6.0525%	908.027898	6.5705%	39.637581	4.1549%
Forecast	2007	63.923710	6.0525%	967.689708	6.5705%	39.448110	-0.4780%
Forecast	2008	67.792709	6.0525%	1,031.271586	6.5705%	39.213345	-0.5951%
Forecast	2009	71.895880	6.0525%	1,099.031100	6.5705%	39.317321	0.2652%

	<u>t</u> <u>Cal.</u>	Contributions <u>Millions</u>	Annual Growth	Child Care <u>Millions</u>	Annual Growth	Casualty <u>Millions</u>	Annual Growth
Actual	2002	345.228308		1.667803		4.464106	
Actual	2003	337.410601	-2.2645%	1.704198	2.1822%	4.105444	-8.0344%
Actual	2004	375.309514	11.2323%	1.544650	-9.3621%	3.618700	-11.8561%
Actual	2005	447.798065	19.3143%	1.494959	-3.2170%	4.477764	23.7396%
Forecast	2006	464.925819	3.8249%	1.448605	-3.1007%	4.484424	0.1487%
Forecast	2007	477.888049	2.7880%	1.403688	-3.1007%	4.491095	0.1487%
Forecast	2008	489.697984	2.4713%	1.360165	-3.1007%	4.497775	0.1487%
Forecast	2009	500.596177	2.2255%	1.317990	-3.1007%	4.504465	0.1487%

	<u>t</u> <u>Cal.</u>	Miscellaneous Expense 1 <u>Millions</u>	Annual Growth	Miscellaneous Expense 2 <u>Millions</u>	Annual Growth	Gambling Losses <u>Millions</u>	Annual Growth
Actual	2002	146.328492		4.266845		4.846199	
Actual	2003	146.982049	0.4466%	7.147014	67.5011%	4.674101	-3.5512%
Actual	2004	160.407920	9.1344%	4.928271	-31.0443%	5.747520	22.9653%
Actual	2005	174.095185	8.5328%	6.133005	24.4454%	7.371107	28.2485%
Forecast	2006	185.923546	6.7942%	6.547462	6.7578%	7.985955	8.3413%
Forecast	2007	198.555548	6.7942%	6.744751	3.0132%	8.652090	8.3413%
Forecast	2008	212.045793	6.7942%	6.947985	3.0132%	9.373789	8.3413%
Forecast	2009	226.452591	6.7942%	7.157343	3.0132%	10.155687	8.3413%

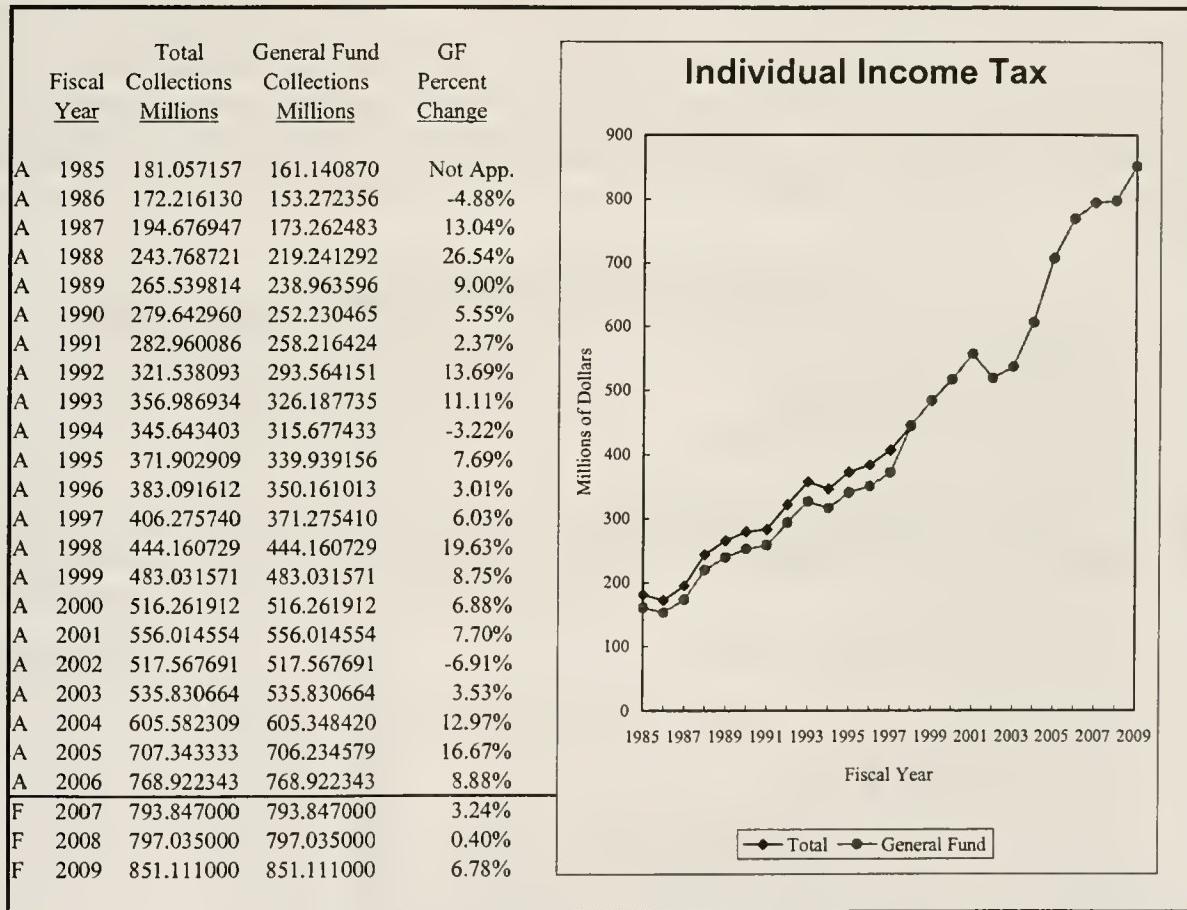
# Legislative Fiscal Division

## Revenue Estimate Profile

### Individual Income Tax

		Itemized Deductions <u>Cal.</u>	Annual Growth	Capital Gains Credit <u>Millions</u>	Annual Growth
Actual	2002	3,724.248606		0.000000	
Actual	2003	3,704.484455	-0.5307%	0.000000	NA
Actual	2004	3,991.384790	7.7447%	0.000000	NA
Actual	2005	3,376.388198	-15.4081%	15.361935	NA
Forecast	2006	3,652.260222	8.1706%	15.361935	0.0000%
Forecast	2007	3,873.662942	6.0621%	30.723870	100.0000%
Forecast	2008	4,044.365575	4.4067%	30.723870	0.0000%
Forecast	2009	4,218.601713	4.3081%	30.723870	0.0000%

#### Revenue Projection:



**Data Source(s):** SABHRS, Income Tax Returns, Labor Statistics - Departments of Commerce, Labor & Industry and Revenue; Bureau of Economic Analysis, Bureau of Labor Statistics, Global Insight, Congressional Budget Office, Industry

**Contacts:** Department of Revenue, Census and Economic Information

# Legislative Fiscal Division

## Revenue Estimate Profile

### Insurance Tax & License Fees

**Revenue Description:** The insurance premiums tax is levied on the net premiums or gross underwriting profit for each insurance company operating in Montana. Gross underwriting profit is essentially insurance premium income. In addition, various insurance and license fees are also collected.

#### Statutory Reference:

Tax Rate (MCA) – 33-2-705(2), 33-2-311, 33-28-201(1&2), 50-3-109(1)

Fee Rate (MCA) – 33-2-708(1&2), 33-14-201(2), 33-2-712, 33-38-105

Tax Distribution (MCA) – 33-2-708(3), 33-2-712, 50-3-109(1)

Date Due – March 1<sup>st</sup> each year (33-2-705(1), 33-2-712, 33-28-201(1&2)). Quarterly payments due the 15<sup>th</sup> of April, June, September, and December (Administrative Rules 6.6.2704, 6.6.2705)

**Applicable Tax Rate(s):** The current tax rate is 2.75% of net premiums (including cancellation and return premiums) on policies sold in Montana. In addition to this tax, there is a 2.5 % tax on the fire portion of net premiums for selected risks. For each Montana resident insured under any individual or group disability or health insurance policy, all insurers are required to pay \$1.00 to the State Insurance Commissioner from October 1, 2005 through June 30, 2007. After that time, the fee is \$0.70. This fee is deposited to the state special revenue fund and used to fund the statewide genetics program established in statute (50-19-211, MCA). Senate Bill 132 (passed by the 1999 legislature) eliminated many disparate fees on insurance companies, which had partially been deposited into the general fund, and replaced them with a single company annual fee of \$1,900. Revenue from this fee is deposited to the state special revenue fund for administration of insurance activities. The following lists various insurance related fees.

Insurance Fees Collected by the State Auditor			
	Fee	Amount	MCA Cite
<b>General Fund</b>			
Farm mutual insurer filing of articles of incorporation		10.00	33-4-202
Farm mutual county insurer certificate of authority		10.00	33-4-505
Farm mutual state insurer certificate of authority		25.00	33-4-505
Benevolent association certificate of authority and reinstatement		25.00	33-6-401
Fraternal benefit society report filing		25.00	33-7-118
Fraternal benefit society certificate of authority renewal		10.00	33-7-217
Fraternal benefit society lapsed certificate of authority reinstatement		25.00	33-7-217
Insurance administrator certificate of registration application and renewal		100.00	33-17-603
Medical care discount card certification and renewal		100.00	33-38-105
<b>State Auditor's Office</b>			
Domestic and foreign insurer accreditation		275.00	33-1-313
Insurance producers charges and expenses for examinations		Variable	33-1-413
Reinstatement of certificate of authority		100.00	33-2-117
Certificate of authority		1,900.00	33-2-708
Non-resident application for original license		100.00	33-2-708
Non-resident biennial license renewal		50.00	33-2-708
Non-resident lapsed license reinstatement		100.00	33-2-708
Resident lapsed insurance producer's license reinstatement		100.00	33-2-708
Surplus lines insurance producer license application		50.00	33-2-708
Surplus lines insurance producer license biennial renewal		100.00	33-2-708
Surplus lines insurance lapsed producer license reinstatement		200.00	33-2-708
Insurance adjuster license application		50.00	33-2-708
Insurance adjuster license biennial renewal		100.00	33-2-708
Insurance adjuster lapsed license reinstatement		200.00	33-2-708
Insurance consultant license application		50.00	33-2-708
Insurance consultant license biennial renewal		100.00	33-2-708
Insurance consultant lapsed license reinstatement		200.00	33-2-708
Rental car entity producer license application		100.00	33-2-708
Rental car entity producer quarterly filing		25.00	33-2-708
A copy of each document page		0.50	33-2-708

# Legislative Fiscal Division

## Revenue Estimate Profile

### Insurance Tax & License Fees

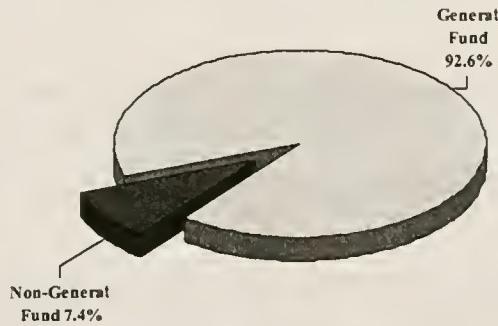
#### Insurance Fees Collected by the State Auditor (continued)

Fee	Amount	MCA Cite	ARM Cite
Review of each course or program submitted for continuing education	75.00	33-2-708	
Genetics program fee for each MT resident insured	1.00	33-2-712	
Surplus lines stamping fee	1% of base premium	33-2-321	6.6.2804
Charges and expenses for examinations	Variable	33-4-315	
Fraternal benefit society charges and expenses for examinations	Variable	33-7-119	
Fraternal benefit society service of process	2.00	33-7-123	
Guaranty associations charges and expenses for examinations	Variable	33-10-218	
Premium finance company license application	100.00	33-14-201	
Premium finance company license renewal	100.00	33-14-201	
Rating & advisory organization charges and expenses for examinations	Variable	33-16-106	
Rating & advisory organization license application	100.00	33-16-403	
Insurance producers background examination	Variable	33-17-201	
Insurance producers charges and examinations	Variable	33-17-212	
Review of each non-resident course submitted for continuing education	75.00	33-17-1206	6.6.4213
Vitacal settlement provider registration application	1,900.00	33-20-1315	6.6.8502
Vitacal settlement broker license	50.00	33-20-1315	8.6.8502
Vitacal settlement provider license renewal	1,900.00	33-20-1315	6.6.8503
Captive insurance company license application	200.00	33-28-102	
Captive insurance company license renewal	300.00	33-28-102	
Captive insurance company examinations and investigations	Variable	33-28-108	
Health service corporation certified copies	0.50	33-30-204	
Health service corporation membership contract filing	25.00	33-30-204	
Health service corporation membership contract package filing	100.00	33-30-204	
Health service corporation filing statement	25.00	33-30-204	
Health service corporation license	300.00	33-30-204	
Health service corporation license renewal	300.00	33-30-204	
Health maintenance organization certification of authority	300.00	33-31-212	
Health maintenance organization amendment to documents	25.00	33-31-212	
Health maintenance organization statement filing	25.00	33-31-212	
Health maintenance organization certification of authority renewal	300.00	33-31-212	
Health maintenance organization charges & examinations	Variable	33-31-401	
Actual cost to review an application for a managed care community network	Variable	53-6-703	6.6.5805
* \$0.70 from July 2007			

**Distribution:** Insurance tax proceeds from the tax on surplus lines premiums, net premiums, captive insurance company premiums, and fire insurance premiums are deposited into the general fund. License fees and the 1% stamping fee on surplus lines insurance premiums are deposited into the state special revenue fund for use by the State Auditor. Beginning October 2005, the genetic fee revenue is deposited to the state special revenue fund.

#### Distribution Chart:

**Based on Actual Fiscal 2006**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Insurance Tax & License Fees

**Collection Frequency:** Quarterly and annually

#### % of Total General Fund Revenue:

FY 2004 – 4.11%  
FY 2005 – 3.74%  
FY 2006 – 3.44%

#### Revenue Estimate Methodology:

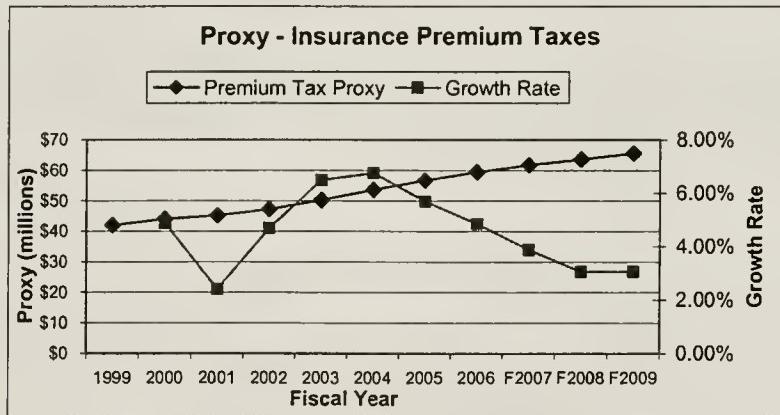
The large majority of insurance tax and license fee revenue is from premium taxes with minor amounts from a multitude of different fees. Estimates are made for these components based on growth factors and then summed. This total is reduced by estimates of refunds and guarantee offsets. Guarantees are amounts that members of the Montana comprehensive health associations are required to pay into a reserve account (up to 1 percent of the total disability insurance premium received from Montana residents). The amount of these payments reduces (offsets) premium tax liabilities dollar for dollar (33-22-1513(7), MCA).

#### Data

The state accounting system provides historical collection data for the various components needed for the analysis. This includes collections of insurance premium taxes, genetics program fees, and various general fund and state special revenue fees. The State Auditor's Office provides historical data on offsets and refunds as well as estimates for these items for the 3-year period.

#### Analysis

Because offsets and refunds can vary substantially, the technique used to estimate the premium tax revenue component of this source begins by adding the offset and refund amounts to the amounts shown on the state accounting system. A regression analysis is run on this historical data to derive a proxy for total premium taxes for the years to be estimated. Because premium tax revenue collections do not vary widely year to year, this technique results in a good "fit". A growth rate for each year is calculated and applied to each previous year to derive the estimate for insurance premium tax revenue. The figure below graphically shows the results of the proxy amounts and the growth rate.



From these amounts offsets and refunds, as estimated by the State Auditor's Office, are subtracted to derive the amount of net premium taxes expected to be received by the state.

If no better information is available, the estimates for the other components such as genetics program fees, general fund fees, and state special revenue fees are a continuation of the last known fiscal year amounts. Because legislation enacted last session (SB 275 increased the genetics fee and earmarked the revenue) became effective October 2005, three months into fiscal 2006, adjustments were made to actual collection so future estimates and distributions of the revenue would be accurate.

# Legislative Fiscal Division

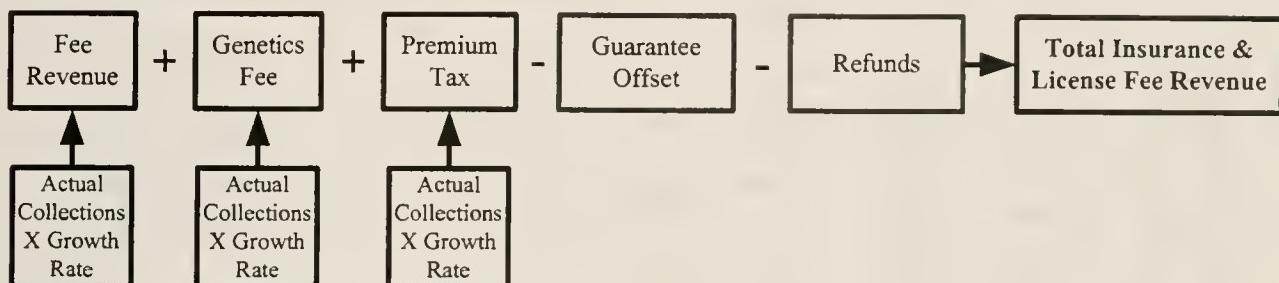
## Revenue Estimate Profile

### Insurance Tax & License Fees

#### Adjustments and Distribution

Once each component has been estimated, adjustments if any, are made. Since each component is estimated separately and each goes to either the general fund or the state special revenue fund, the distribution of the revenue has already been done.

#### Forecast Methodology



#### Revenue Estimate Assumptions

	t	Total Tax Millions	GF Tax Millions	Non-GF Fees Millions	GF Fees Millions
	Fiscal				
Actual	2000	42.617531	39.333537	3.283994	1.028229
Actual	2001	45.951678	42.297647	3.654031	0.444540
Actual	2002	51.083956	47.290738	3.793218	0.290736
Actual	2003	54.789956	50.809600	3.980356	0.378097
Actual	2004	61.063242	56.532929	4.530313	0.623010
Actual	2005	61.289844	57.308425	3.981419	-0.416721
Actual	2006	64.521416	58.794762	4.816049	0.199100
Forecast	2007	65.984000	60.241000	4.832485	0.182664
Forecast	2008	67.599000	62.129000	4.832485	0.182664
Forecast	2009	69.541000	64.071000	4.832485	0.182664

	t	Genetics Millions	Premium Tax Millions	Offsets Millions	Refunds Millions
	Fiscal				
Actual	2000	0.542398	40.121480	2.082935	1.881369
Actual	2001	0.634902	42.405287	0.861069	0.326014
Actual	2002	0.569711	47.682854	0.740006	0.512557
Actual	2003	0.563399	52.037866	1.463016	0.706745
Actual	2004	0.582956	56.775107	1.161437	0.286707
Actual	2005	0.634985	59.308556	1.650234	0.568162
Actual	2006	0.910605	60.064454	1.116040	0.352752
Forecast	2007	0.910605	61.701423	1.168182	0.475000
Forecast	2008	0.637424	63.586170	1.165000	0.475000
Forecast	2009	0.637424	65.528555	1.165000	0.475000

Total Tax = Non-GF Fees + GF Fees + Genetics + Premium Tax - Offsets - Refunds

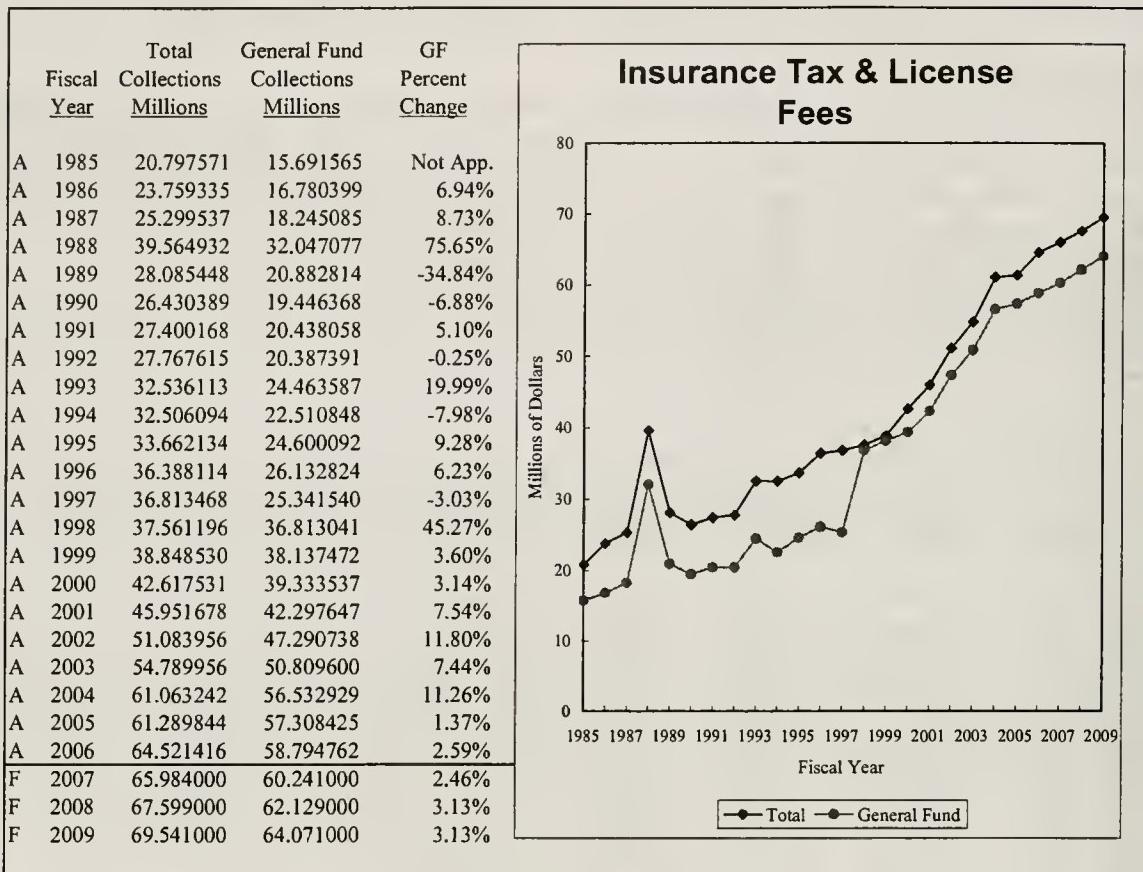
GF Tax = GF Fees + Premium Tax - Offsets - Refunds

# Legislative Fiscal Division

## Revenue Estimate Profile

### Insurance Tax & License Fees

#### Revenue Projection:



**Data Source(s):** SABHRS, State Auditor

**Contacts:** State Auditor

# Legislative Fiscal Division

## Revenue Estimate Profile

### Investment License Fee

**Revenue Description:** Investment advisors and investment companies pay various fees to the state. These fees are for: 1) registration of securities and agents; 2) registration of securities by notification; 3) notice of a federal filing of a federally secured security; and 4) name changes.

#### Statutory Reference:

Fee Rate (MCA) – 30-10-209, 30-10-904

Fee Distribution (MCA) – excess to general fund (30-10-115), 30-10-209(6), portfolio notice fee (30-10-209(1d)), 30-10-210(2), 30-10-907

Date Due (Regulation of dealers) – initial (upon registration), annual (prior to December 31<sup>st</sup>) (30-10-201 (9&11)

Date Due (Regulation of securities) – upon registration (30-10-206(3c)), valid for one year (30-10-209(1b)), renewal (prior to termination date):

**Applicable Tax Rate(s):** Initial and annual security registration fees vary based on the offering price of securities, but cannot be less than \$200 or more than \$1,000. Initial and annual registration fees for a broker-dealer, investment adviser, and federal covered adviser are \$200. Initial and annual registration fees for a salesperson or investment adviser are \$50. The fee for name changes to series, portfolio, or a subdivision of an investment company is \$50. More details on the fees are provided below.

Security Fees Collected by the State Auditor			
	Fee	Amount	MCA Cite
			ARM Cite
<b>General Fund</b>			
Certified or uncertified copies		0.50	30-10-107
Initial registration for the first \$100,000 issue		200	30-10-209
Additional registration fee of 0.1% over \$100,000 max of \$1,000		1,000	30-10-209
Registration renewal fee of 0.1%, min of \$200 & max of \$1,000		1,000	30-10-209
Late amended registration 0.3%, min of \$600 & max of \$3,000		3,000	30-10-209
Name change of series, portfolio or other subdivision of an issuer		50	30-10-209
Registration for broker-dealer or investment adviser		200	30-10-209
Registration renewal for broker-dealer or investment adviser		200	30-10-209
Initial registration for salesperson or investment adviser representative		50	30-10-209
Registration renewal for salesperson or investment adviser representative		50	30-10-209
Transfer of registration for salesperson or investment adviser representative		50	30-10-209
Initial registration for federal covered adviser		200	30-10-209
Registration renewal for federal covered adviser		200	30-10-209
Certified or uncertified copies		Variable	30-10-209
Request for exemption for transaction in compliance with rules-first \$100,000		200	30-10-209
Request for exemption for transaction in compliance with rules-0.1% over \$100,000, \$1,000 max		1,000	30-10-209
Request for exemption for other transactions		50	30-10-209
Living trusts initial license application for the first \$100,000 issue		200	30-10-904
Living trusts additional license application fee of 0.1% over \$100,000 max of \$1,000		1,000	30-10-904
Living trusts license renewal fee of 0.1%, min of \$200 & max of \$1,000		1,000	30-10-904
<b>State Auditor's Office</b>			
Collected examination costs		Various	30-10-115
Portfolio notice filing - Initial registration for the first \$100,000 issue		200	30-10-209
Portfolio notice filing - Additional registration fee of 0.1% over \$100,000 max of \$1,000		1,000	30-10-209
Portfolio notice filing - Registration renewal fee of 0.1%, min of \$200 & max of \$1,000		1,000	30-10-209
Portfolio notice filing - Late amended registration 0.3%, min of \$600 & max of \$3,000		3,000	30-10-209

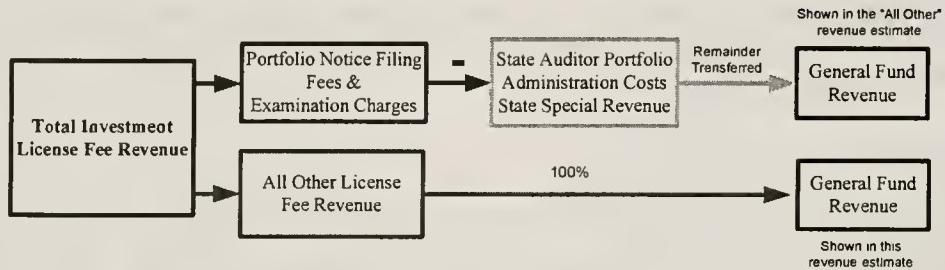
**Distribution:** All fees except portfolio notice filing fees and examination charges are deposited to the general fund. Portfolio notice filing fees and examination charges are deposited in a state special revenue account from which the State Auditor pays for expenses associated with the regulation of portfolio activities. The excess in this account is transferred to the general fund throughout the year as a non-budgeted transfer and is shown under the “All Other” revenue category.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Investment License Fee

#### Distribution Chart:



**Collection Frequency:** Varies

#### % of Total General Fund Revenue:

FY 2004 - 0.35%

FY 2005 - 0.34%

FY 2006 - 0.33%

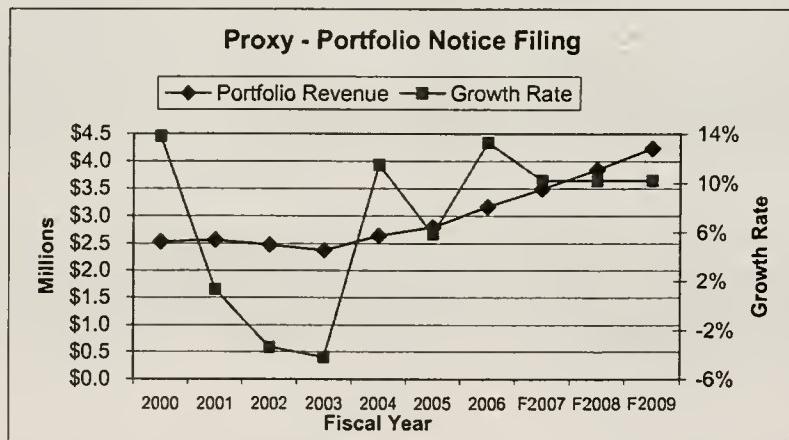
**Revenue Estimate Methodology:** Investment license fee revenue is obtained from two major sources: 1) portfolio notice filing and examination fees (state special revenue); and 2) many other varied fees (general fund). The portfolio notice filing fees, examination fees, and other permit revenue are estimated separately and then summed.

#### Data

The state accounting system (SABHRS) provides historical collection data for the state special revenue portfolio notice filing fees. Revenue from examination fee and fees distributed to the general fund is also available and, depending on the analysis technique used to derive the estimate for this source, this data is also used. The State Auditor's Office provides revenue estimates of the general fund and examination fees in its biennial budget submission for the 3-year period under consideration. Also provided in the budget submission are requested appropriations for the portfolio regulatory program that are needed to determine the transfer amount of portfolio notice filing and examination fee revenue to the general fund.

#### Analysis

To estimate the revenue from the portfolio notice filing fee, the average of the yearly growth rate for each year between FY 2003 and 2006 was applied to each previous year to derive the estimate for portfolio notice filing fee revenue (see the figure below). This same technique was also used to estimate the examination fee and permit revenue.



# Legislative Fiscal Division

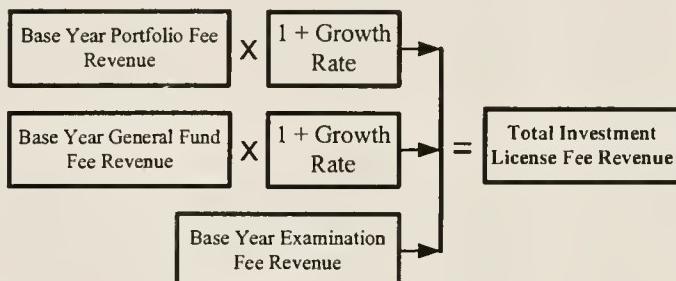
## Revenue Estimate Profile

### Investment License Fee

#### Adjustments and Distribution

Once each component has been estimated, adjustments if any, are made. Since the general fund and the state special revenue component are estimated under separate methodologies, the distribution of the revenue has already been done. However, there is a further distribution of the portfolio notice filing and examination fee revenue after it is in the state special revenue fund. Once there, the revenue is reduced by estimates of the appropriations required by the State Auditor's Office to regulate portfolio activities. The remaining amount of the fee revenue is then transferred to the general fund. The general fund transfer amounts are not shown in this revenue source, but are shown in the "All Other" revenue source.

#### Forecast Methodology



#### Revenue Estimate Assumptions

t	Total Tax Fiscal	Millions	GF Tax Millions	GF Transfer Millions	Licenses Millions	Portfolio Millions	Portfolio Expenses Millions
Actual	2000	7.915054	5.389593	2.296258	5.389593	2.525461	0.151983
Actual	2001	8.447250	5.888594	2.445000	5.888594	2.558656	0.135759
Actual	2002	7.467433	4.991593	2.179165	4.991593	2.475840	0.202493
Actual	2003	7.520038	5.141561	2.036200	5.141787	2.378477	0.320954
Actual	2004	7.485904	4.833881	2.113000	4.833881	2.652023	0.683808
Actual	2005	8.007099	5.192327	2.110000	5.192327	2.814772	0.689948
Actual	2006	8.763918	5.584127	2.234000	5.584127	3.179791	0.653932
Forecast	2007	9.504000	6.002000	2.658000	6.001848	3.502205	0.844395
Forecast	2008	10.308000	6.451000	3.006000	6.450816	3.857482	0.850903
Forecast	2009	11.182000	6.933000	3.401000	6.933369	4.248971	0.847969

t	Licenses Fiscal	Portfolio Growth %	Expense Growth %
Actual	2000	0.221213	0.044550
Actual	2001	0.092586	-0.106749
Actual	2002	-0.152329	0.491562
Actual	2003	0.030089	0.585013
Actual	2004	-0.059883	0.1130548
Actual	2005	0.074153	0.008979
Actual	2006	0.075457	-0.052201
Forecast	2007	0.074805	0.291258
Forecast	2008	0.074805	0.007707
Forecast	2009	0.074805	-0.003448

Total Tax = Licenses + Portfolio - Portfolio Expenses

GF Tax = Licenses

GF Transfer = Portfolio - Portfolio Expenses

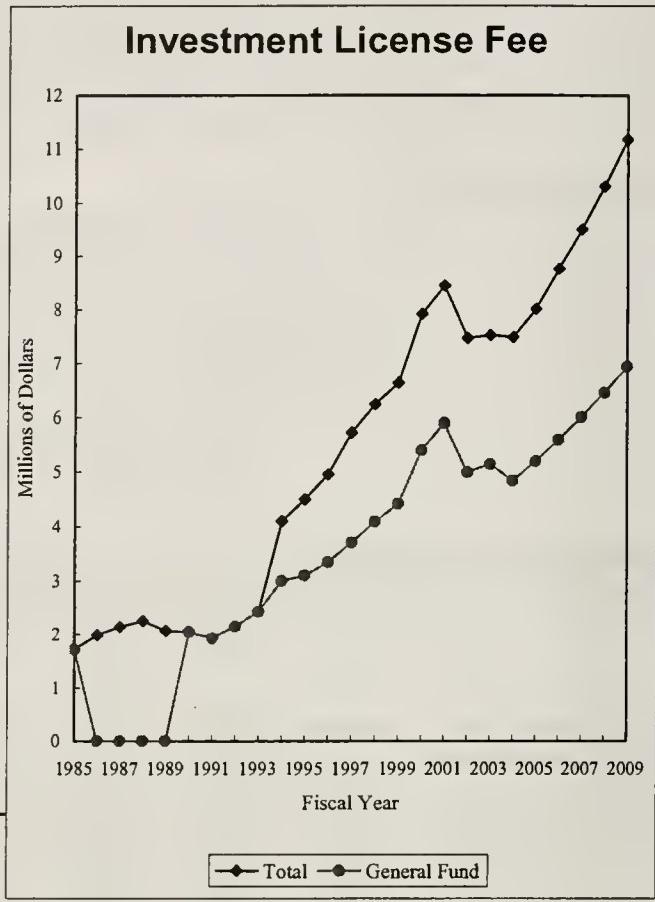
# Legislative Fiscal Division

## Revenue Estimate Profile

### Investment License Fee

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.719086	1.719086	Not App.
A 1986	1.986908	0.000000	-100.00%
A 1987	2.140191	0.000000	Not App.
A 1988	2.249184	0.000000	Not App.
A 1989	2.066512	0.000000	Not App.
A 1990	2.040484	2.040484	Not App.
A 1991	1.926470	1.926470	-5.59%
A 1992	2.148119	2.148119	11.51%
A 1993	2.428086	2.428086	13.03%
A 1994	4.099445	2.999890	23.55%
A 1995	4.497142	3.098903	3.30%
A 1996	4.954212	3.343572	7.90%
A 1997	5.724848	3.710080	10.96%
A 1998	6.241477	4.085657	10.12%
A 1999	6.634687	4.413311	8.02%
A 2000	7.915054	5.389593	22.12%
A 2001	8.447250	5.888594	9.26%
A 2002	7.467433	4.991593	-15.23%
A 2003	7.520038	5.141561	3.00%
A 2004	7.485904	4.833881	-5.98%
A 2005	8.007099	5.192327	7.42%
A 2006	8.763918	5.584127	7.55%
F 2007	9.504000	6.002000	7.48%
F 2008	10.308000	6.451000	7.48%
F 2009	11.182000	6.933000	7.47%



**Data Source(s):** State Auditor

**Contacts:** State Auditor

# Legislative Fiscal Division

## Revenue Estimate Profile

### Lodging Taxes

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**Revenue Description:** The state imposes two taxes on room charges collected by lodging facilities and campgrounds – a lodging sales tax and a lodging facility use tax. The taxes only apply for rooms used for lodging.

The 3 percent lodging sales tax began June 1, 2003 and applies to hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, and bed and breakfast facilities. Exempt are facilities: 1) for health care; 2) owned by non-profit corporations for use by people under 18-years of age for camping; 3) whose average daily charge is less than 60 percent of the amount the state of Montana reimburses for lodging; or 4) rented for 30 days or more. Sales to the U.S. government are also exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The vendor must pay the tax due by the last day of the month following a calendar quarter. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed.

The 4 percent lodging facility use tax applies to facilities containing individual sleeping rooms or suites, providing overnight lodging for periods of less than 30 days to the general public for compensation. This includes hotels, motels, campgrounds, resorts, dormitories, condominium inns, dude ranches, guest ranches, hostels, public lodging houses, or bed and breakfasts. Exempt are: 1) non-profit or religious corporation facilities used primarily by persons under 18 years of age for camping; 2) facilities whose average daily charge does not exceed 60 percent of the amount the state of Montana reimburses for lodging; or 4) rented for 30 days or more. All facilities must be registered with the Department of Revenue. Any of the tax paid by state employees is returned to the fund that paid the tax. Since general fund pays a portion of the tax, a portion is returned to the general fund. This amount is also shown in the "All Other Revenue" profile.

#### **Statutory Reference:**

Tax Rate (MCA) – 15-65-111 (lodging facility use tax), 15-68-102 (lodging sales tax)

Tax Distribution (MCA) – 15-65-121 (lodging facility use tax), 15-68-820 (lodging sales tax)

Date Due – Lodging facility use tax is due before the end of calendar quarter (15-65-112). The lodging sales tax is due the last day of the month following the calendar quarter (15-68-502(1)).

**Applicable Tax Rate(s):** The lodging sales tax is 3.0 percent of the sales price. The lodging facility use tax is 4.0 percent of room charges.

#### **Distribution:**

1. Sales Tax: 100% general fund
2. Lodging Facility Use Tax:

Fiscal 2004 - 2007, the revenue is first distributed: 1) to the Department of Revenue in the amount appropriated for collection and disbursement costs; 2) to the various funds from which payment of the tax paid by state employees were made, including the general fund; and 3) \$400,000 to the Montana heritage preservation and development fund which is statutorily appropriated for restoring and maintaining historic properties. After these distributions, the remainder is distributed and statutorily appropriated:

- 67.5% to the Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
- 22.5% to regional nonprofit tourism corporations.
- 6.5% to the Department of Fish, Wildlife and Parks for maintenance of state park facilities.
- 2.5% to the university system for the establishment and maintenance of a Montana travel research program.
- 1.0% to the Montana Historical Society to install and maintain roadside historical signs and historic sites.

# Legislative Fiscal Division

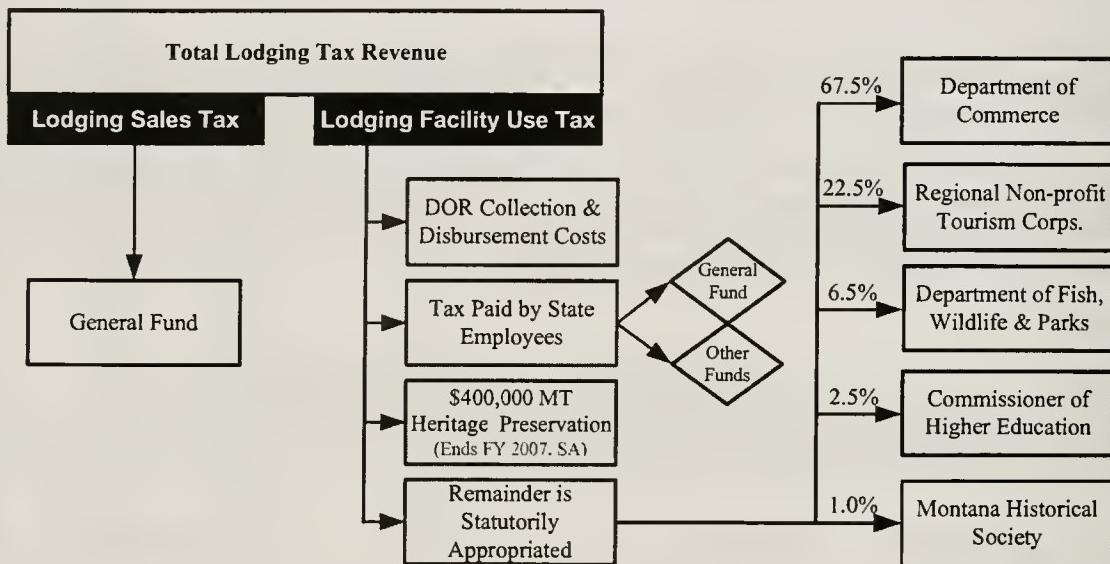
## Revenue Estimate Profile

### Lodging Taxes

Fiscal 2008 and beyond, the revenue is first distributed: 1) to the Department of Revenue in the amount appropriated for collection and disbursement costs; and 2) to the various funds from which payment of the tax paid by state employees were made, including the general fund. After these distributions, the remainder is distributed and statutorily appropriated:

- 67.5% to the Department of Commerce for tourism promotion and promotion of the state as a location for the production of motion pictures and television commercials.
- 22.5% to regional nonprofit tourism corporations.
- 6.5% to the Department of Fish, Wildlife and Parks for maintenance of state park facilities.
- 2.5% to the university system for the establishment and maintenance of a Montana travel research program.
- 1.0% to the Montana Historical Society to install and maintain roadside historical signs and historic sites.

#### Distribution Chart:



**Collection Frequency:** The owner of a facility collects the tax and remits it quarterly to the Department of Revenue.

#### % of Total General Fund Revenue:

A small portion for reimbursement of lodging facility taxes paid by state employees is included in "All Other General Fund Revenue"  
FY 2004 – 0.67%  
FY 2005 – 0.67%  
FY 2006 – 0.63%

#### Revenue Estimate Methodology:

##### Data

Data from the state accounting system (SABHRS) is used to prepare the estimate for the two lodging facility taxes. Additional data, such as the consumer price index projections, provided by the Global Insight, and non-residential tourism expenditures, provided by the Institute for Tourism and Recreation Research, is used to evaluate the results of the methodology.

# Legislative Fiscal Division

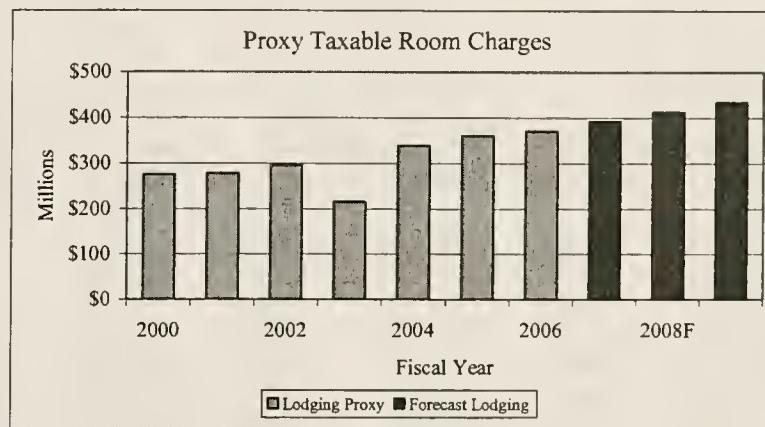
## Revenue Estimate Profile

### Lodging Taxes

Total lodging taxes are made up of two separate taxes, the lodging facility use tax, which is deposited into state special revenue accounts to fund state tourism activities, and the lodging sales tax, which is deposited into the general fund. There are some differences in the numbers of rooms that each of the facility taxes are imposed on, so the proxy for room charges differs slightly between the two taxes. Typically, the taxable room charge of the lodging sales tax is between 94 percent and 96 percent of the room charge of the lodging facility use tax. Both taxes are estimated using a single proxy of the taxable room charges in Montana, but adjustments are made to the proxy estimate for the lodging sales tax.

#### Analysis

Because the lodging taxes exhibit relatively consistent growth from year to year, the projection of the proxy for lodging receipts is estimated using a linear trend regression model. The trend is based on the proxy taxable room charges, beginning in fiscal 1988 when the tax was first assessed. The results of the model are depicted in the figure below.



The statistics of fit show that a linear trend accurately measures the rate of growth in the number of taxable room charges in Montana. The regression model utilizes three independent variables. The main variable of the model is the passage of time, and two dummy variables (variables with a value of 0 or 1) serve to reduce extreme variations in the data series (1992 and 2003). The model provides an  $R^2$  rating of 0.994. This means that the linear trend explains 99.4 percent of the variability of the number of taxable room charges in Montana, when all other impacts are held constant.\* The model produces an estimated increase in taxable room charges equal to approximately 4.0 percent per fiscal year. The model predicts taxable room charges of \$392.2 million, \$412.8 million, and \$434.4 million in fiscal years 2007 through 2009, respectively.

After the projections for the taxable room charges are determined, the amounts are reduced by ratio to account for the difference apparent in the taxable room receipts of the lodging facility use tax and lodging sales tax. Finally, the estimates for each of the taxes are determined by multiplying the estimates of taxable room charges by the tax rate. Revenue from the two taxes is then added together to create the gross fiscal year estimates of the lodging facility taxes.

#### Adjustments

Several adjustments are required before the revenues of the lodging facility use tax are distributed. A portion of the collections is distributed to the DOR to cover the expenses associated with administration of the tax and reimbursements are provided to the general fund and other funds for the tax paid by state employees who stay in lodging facilities in connection with their jobs. The final adjustment, occurring for the last time in fiscal 2007, is a distribution of \$400,000 to the Montana Historic Preservation fund. After the gross lodging facility use tax estimates are adjusted, the remainder of the revenues flow to the statutorily designated agencies.

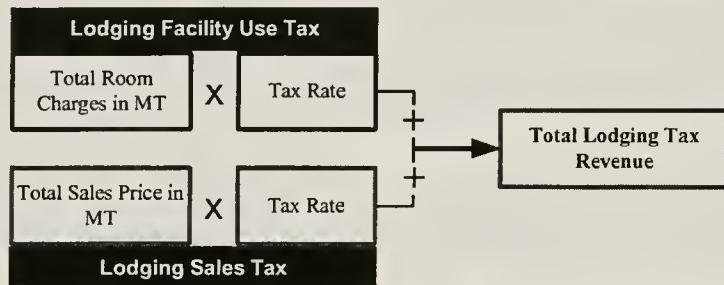
\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Lodging Taxes

#### Forecast Methodology



#### Revenue Estimate Assumptions

	<u>t</u> Fiscal	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Accom. Sales <u>Millions</u>	Accom. Tax Rate <u>Rate</u>	Lodging Sales <u>Millions</u>	Lodging Tax Rate <u>Rate</u>	DOR Admin. <u>Millions</u>
Actual	2000	11.052773	0.000000	276.319325	4.0000%			0.114927
Actual	2001	11.161741	0.000000	279.043525	4.0000%			0.114525
Actual	2002	11.862436	0.000000	296.560900	4.0000%			0.126368
Actual	2003	12.612664	2.271237	216.035675	4.0000%			0.103338
Actual	2004	22.848038	9.278658	339.234500	4.0000%	309.288600	3.0000%	0.137254
Actual	2005	24.636260	10.200914	360.883650	4.0000%	340.030467	3.0000%	0.141371
Actual	2006	25.519386	10.679216	371.004250	4.0000%	355.973867	3.0000%	0.029122
Forecast	2007	26.979000	11.290000	392.217220	4.0000%	376.327442	3.0000%	0.149981
Forecast	2008	28.393000	11.881000	412.771878	4.0000%	396.049375	3.0000%	0.149107
Forecast	2009	29.881000	12.504000	434.403730	4.0000%	416.804862	3.0000%	0.154480

	<u>t</u> Fiscal	Higher Ed. <u>Millions</u>	DOC <u>Millions</u>	Sites & Signs <u>Millions</u>	Regional <u>Millions</u>	FWP <u>Millions</u>	MT. Heritage <u>Millions</u>	All Other Entities <u>Millions</u>
Actual	2000	0.263447	7.113045	0.105379	2.371015	0.684960	0.400000	0.000000
Actual	2001	0.267061	7.210657	0.106824	2.403552	0.694358	0.400000	-0.035236
Actual	2002	0.283388	7.651483	0.113892	2.550494	0.736809	0.400000	0.000002
Actual	2003	0.288449	6.088121	0.115511	2.596040	0.749968	0.400000	0.000000
Actual	2004	0.325804	8.796686	0.130321	2.932227	0.847088	0.400000	0.000000
Actual	2005	0.347350	9.378433	0.138940	3.126144	0.903108	0.400000	0.000000
Actual	2006	0.360276	9.727458	0.144110	3.242486	0.936718	0.400000	0.000000
Forecast	2007	0.378000	10.219000	0.151000	3.406000	0.984000	0.400000	0.000000
Forecast	2008	0.409000	11.045000	0.164000	3.682000	1.064000	0.000000	0.000000
Forecast	2009	0.431000	11.625000	0.172000	3.875000	1.119000	0.000000	0.000000

Total Tax = Accom. Sales \* Accom. Tax Rate + Lodging Sales \* Lodging Tax Rate

GF Tax = Lodging Sales \* Lodging Tax Rate

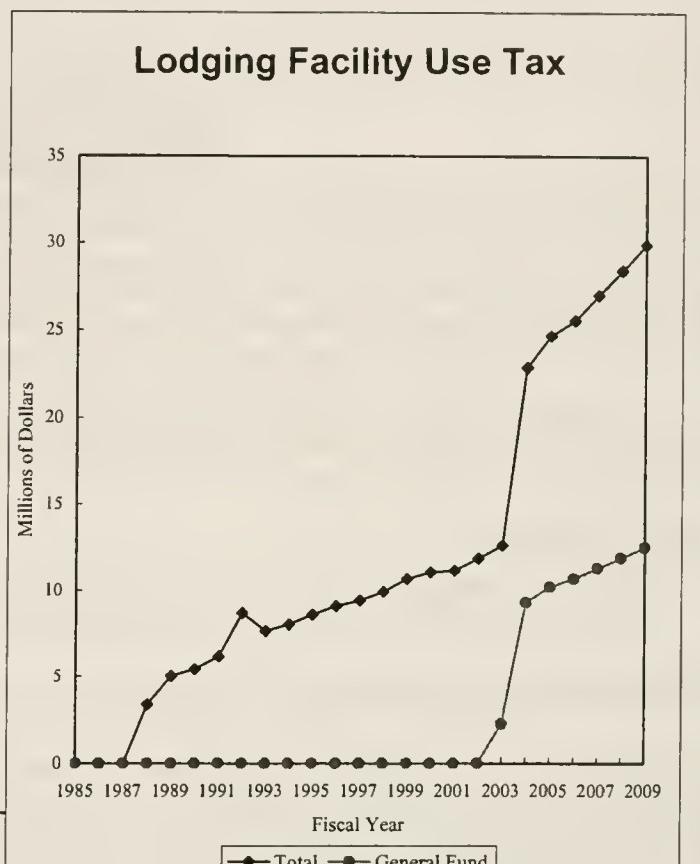
# Legislative Fiscal Division

## Revenue Estimate Profile

### Lodging Taxes

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	3.372657	0.000000	Not App.
A 1989	5.017691	0.000000	Not App.
A 1990	5.413325	0.000000	Not App.
A 1991	6.159098	0.000000	Not App.
A 1992	8.676123	0.000000	Not App.
A 1993	7.618080	0.000000	Not App.
A 1994	8.009919	0.000000	Not App.
A 1995	8.572355	0.000000	Not App.
A 1996	9.071216	0.000000	Not App.
A 1997	9.404826	0.000000	Not App.
A 1998	9.903343	0.000000	Not App.
A 1999	10.664082	0.000000	Not App.
A 2000	11.052773	0.000000	Not App.
A 2001	11.161741	0.000000	Not App.
A 2002	11.862436	0.000000	Not App.
A 2003	12.612664	2.271237	Not App.
A 2004	22.848038	9.278658	308.53%
A 2005	24.636260	10.200914	9.94%
A 2006	25.519386	10.679216	4.69%
F 2007	26.979000	11.290000	5.72%
F 2008	28.393000	11.881000	5.23%
F 2009	29.881000	12.504000	5.24%



**Data Source(s):** UM Institute for Tourism and Recreation Research, SABHRS, Global Insight

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Motor Vehicle Fee

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**Revenue Description:** The state assesses a variety of motor vehicle fees, such as fees for the filing of motor vehicle liens, fees for new license plates, title fees, and annual and permanent registration fees. The fees vary according to the type of vehicle (i.e., motor vehicle, snowmobile, etc.) and the type of license plate (regular, personal, military, etc.). There are also Gross Vehicle Weight (GVW) fees on trucks and pickups, as well as special fees for senior citizen transportation, veteran services, the highway patrol pension fund, salaries for the highway patrol, motorcycle safety, electronic commerce applications, and an optional \$4 registration fee on light vehicles for state parks and fishing access sites.

Effective January 1, 2004, all fees on motorcycles and quadricycles, trailers, travel trailers, snowmobiles, off-highway vehicles, and watercraft are one-time only and permanent, except upon change of ownership. Fees on other vehicles are annual. Light vehicles older than ten years old may be licensed permanently, at the option of the owner. New license plate fees will increase from \$2 to \$5. The registration fees on campers and pontoons and rubber rafts are eliminated. Beginning January 1, 2005, the registration fees on all light vehicles increased, as well permanent fees on recreational trailers, off-highway vehicles, snowmobiles, recreational vehicles, and motorcycles. Beginning January 2006, motor homes 11 years or older may be permanently registered and the registration fee for certain vehicles increases \$5 to fund Highway Patrol salaries.

Due to changes enacted by HB 671 and SB 285 in the 2005 legislature, registration fee revenue reported by counties on the county collection report are now being recorded as vehicle taxes. Therefore, revenue shown for this source shows a decline from FY 2005, but revenue increases by a like amount in the "Vehicle Tax" revenue source.

#### **Statutory Reference:**

Tax Fee rate – multiple, but generally in Title 61, chapter 3. Permanent registration 61-3-562

Tax Distribution (MCA) – all fees in Title 61 are distributed to the general fund unless stated otherwise (61-3-108)

#### **Applicable Tax Rate(s):** Various

**Distribution:** Most motor vehicle fees are allocated to the general fund. The following fees are distributed to the Motor Vehicle Information Technology Systems state special revenue account: 1) \$4 of the \$8 recording lien fee (including boats, snowmobiles, and off highway vehicles); 2) \$5.00 of the \$10.00 certificate of ownership fees for watercraft, snowmobiles, off-highway vehicles and all other vehicles; 3) \$5.00 of the \$10.00 duplicate certificate of ownership fee; and 4) all of the \$10.00 fee for the issuance of a new certificate of title following the release of a lien. Other distributions to other state special revenue accounts (and county general fund) are: 1) \$10 of the \$30 donation fee for collegiate license plates to the student academic scholarship fund or foundation of the named institution; 2) the annual donation fee of \$20 for motorcycle or quadricycles specialty license plates for grants to chronically or critically ill children; 3) \$5 of the \$15 administrative fee for generic specialty license plates to the county general fund; 4) all of the \$15 surcharge for sponsoring a generic patriotic license plate for the construction, maintenance, operation, and administration of state veterans' cemeteries; and 5) with the enactment of SB 285 by the 2005 legislature, the optional \$4 fee for parks is deposited in a state special account rather than the general fund. With the enactment of HB 671 by the 2005 legislature, revenue from the newly enacted temporary registration fees of \$3 and \$8 are deposited in a non-budgeted enterprise fund.

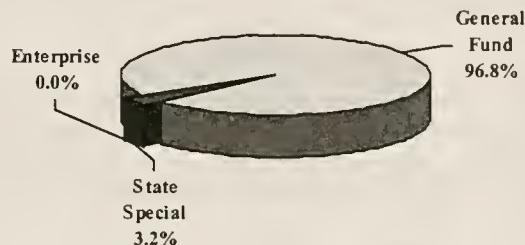
# Legislative Fiscal Division

## Revenue Estimate Profile

### Motor Vehicle Fee

#### Distribution Chart:

Based on Actual Fiscal 2006



**Collection Frequency:** The various fees are generally collected on a monthly basis.

#### % of Total General Fund Revenue:

FY 2004 – 2.22%  
FY 2005 – 2.00%  
FY 2006 – 1.24%

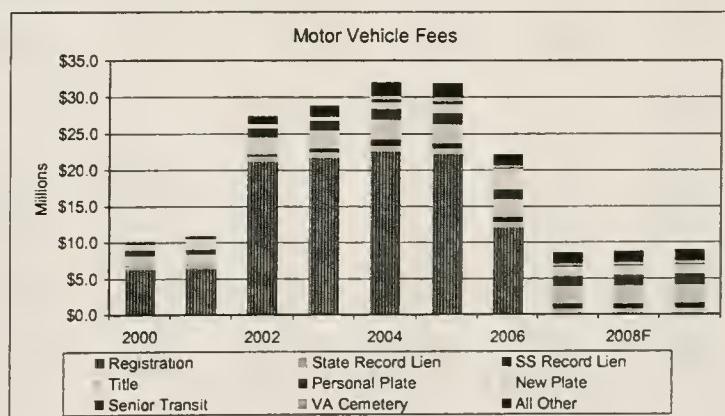
#### Revenue Estimate Methodology:

##### Data

The data used to estimate the motor vehicle account (MVA) fees are obtained from the state accounting system (SABHRS) and Global Insight . No adjustments are required on the raw data in preparation for analysis.

##### Analysis

MVA fees are currently imposed at different rates on eight major categories. Included in the fees assessed on motor vehicles in Montana are registration fees, two types of record liens, title fees, personal and new plate fees, senior transit fees, and veteran's administration fees. The ninth category is made up of other miscellaneous fees assessed on motor vehicles. As shown in the figure below, the collection of motor vehicle fees has been highly variable since fiscal 2000. The figure below also shows the impact of the reduction and subsequent change of the vehicle registration fee to a vehicle tax in fiscal 2006 and fiscal 2007. This change in the vehicle registration fees is the combined impact of SB 285 and HB 671, both implemented in the 2005 session. However, since registration fee revenues are now recorded as vehicle taxes, the net change to total revenues is zero.



# Legislative Fiscal Division

## Revenue Estimate Profile

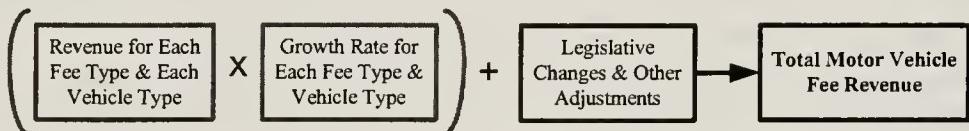
### Motor Vehicle Fee

The future growth in MVA fees results from growth in the vehicle stock in Montana. Because fee payments are directly connected to the number of vehicles in the state, estimates for the MVA fees are made by applying the growth rate for the national vehicle stock, as projected by Global Insight. For the estimated period, that growth rate is expected to be 2.4 percent. The growth rate is applied to the base year (fiscal 2006) of each of the fee categories and carried forward at the same rate for all estimated fiscal years. Finally, the estimated tax collections of each category are combined to create the total estimates for the MVA fees.

#### Adjustments

In past years, adjustments to MVA fees have been required as a result of legislative actions. In the estimates, legislative action adjustments are made in each fiscal year in amounts of \$2.8 million, \$1.2 million, and \$1.2 million in fiscal years 2007 through 2009, respectively. These legislative actions are the impacts of SB 118, passed in the 2003 session, that increase MVA collections by \$1.6 million in fiscal 2007, and SB 671, passed in the 2005 session and increasing MVA collections by \$1.2 million in each year of the forecast period.

#### Forecast Methodology



#### Revenue Estimate Assumptions

		Total Tax	GF Tax	GF Fee Registration	GF Fee Record	GF Fee Titles	GF Fee Personal	GF Fee VA Cemetery
1	Fiscal	Millions	Millions	Millions	Millions	Millions	Millions	Millions
Actual	2000	11.715716	11.715716	6.233271	0.629295	1.292338	0.727670	
Actual	2001	12.548251	12.548251	6.367734	0.635889	1.290092	0.712995	
Actual	2002	27.456893	27.271180	21.180491	0.727958	2.352977	1.269593	
Actual	2003	28.906484	28.352232	21.712218	0.696408	2.441699	1.353633	
Actual	2004	31.602204	30.723879	22.576638	0.737269	2.660438	1.492359	
Actual	2005	31.361863	30.639532	22.230804	0.716784	2.607814	1.508333	
Actual	2006	21.903344	21.195081	12.084778	0.688231	2.368829	1.418129	0.232542
Forecast	2007	11.318000	10.613000	0.000000	0.704749	2.425681	1.452164	0.238123
Forecast	2008	9.923000	9.201000	0.000000	0.721663	2.483897	1.487016	0.243838
Forecast	2009	10.133000	9.394000	0.000000	0.738983	2.543511	1.522704	0.249690

		GF Fee New Plate	GF Fee Computer	GF Fee \$.25	GF Fee Other	GF Fee Transit	Non GF Fee Lien	Non GF Fee Adjustments
1	Fiscal	Millions	Millions	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.856821	1.304458	0.299821	0.372042			
Actual	2001	1.536103	1.335946	0.304236	0.365256			
Actual	2002	0.524575	-0.001199	0.024150	1.083974	0.108661	0.185713	
Actual	2003	0.491723	0.000000	0.000000	1.221468	0.435083	0.554252	
Actual	2004	0.909985	0.000000	0.000000	1.953075	0.394115	0.878325	
Actual	2005	1.191590	0.000000	0.000000	2.011671	0.372536	0.722331	0.000000
Actual	2006	2.865422	0.000000	0.000000	1.567085	0.202607	0.708263	0.000000
Forecast	2007	3.980188	0.000000	0.000000	1.604695	0.207470	0.704749	0.000000
Forecast	2008	2.409473	0.000000	0.000000	1.643208	0.212449	0.721663	0.000000
Forecast	2009	2.439460	0.000000	0.000000	1.682645	0.217548	0.738983	0.000000

# Legislative Fiscal Division

## Revenue Estimate Profile

### Motor Vehicle Fee

		GF Fee Registration <u>Fiscal</u>	GF Fee Record <u>Growth Rate</u>	GF Fee Titles <u>Growth Rate</u>	GF Fee Personal <u>Growth Rate</u>	GF Fee New Plate <u>Growth Rate</u>	GF Fee Other <u>Growth Rate</u>	GF Fee VA Cemetery <u>Growth Rate</u>
Actual	2000	3.2150%	-0.0519%	2.1117%	4.8659%	84.1881%	-8.5040%	
Actual	2001	2.1572%	1.0478%	-0.1738%	-2.0167%	79.2793%	-1.8240%	
Actual	2002	232.6221%	14.4788%	82.3883%	78.0648%	-65.8503%	196.7710%	
Actual	2003	2.5105%	-4.3340%	3.7706%	6.6194%	-6.2626%	12.6843%	
Actual	2004	3.9813%	5.8674%	8.9585%	10.2484%	85.0605%	59.8957%	
Actual	2005	-1.5318%	-2.7785%	-1.9780%	1.0704%	30.9461%	3.0002%	37.8945%
Actual	2006	-45.6395%	-3.9835%	-9.1642%	-5.9804%	140.4705%	-22.1003%	-57.2111%
Forecast	2007	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%
Forecast	2008	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%
Forecast	2009	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%	2.4000%

		GF Fee New Plate <u>Fiscal</u>	GF Fee Computer <u>Growth Rate</u>	GF Fee \$0.25 <u>Growth Rate</u>	GF Fee Other <u>Growth Rate</u>	GF Fee Transit <u>Growth Rate</u>	Non GF Fee Lien <u>Growth Rate</u>
Actual	2000	84.1881%	2.8335%	5.4012%	-8.5040%		
Actual	2001	79.2793%	2.4139%	1.4725%	-1.8240%		
Actual	2002	-65.8503%	-100.0897%	-92.0621%	196.7710%		
Actual	2003	-6.2626%	-100.0000%	-100.0000%	12.6843%	300.4040%	-4.3340%
Actual	2004	85.0605%			59.8957%	-9.4161%	5.8674%
Actual	2005	30.9461%			3.0002%	-5.4753%	-2.7785%
Actual	2006	140.4705%			-22.1003%	-45.6141%	-3.9835%
Forecast	2007	-57.4168%			2.4000%	2.4000%	2.4000%
Forecast	2008	2.4000%			2.4000%	2.4000%	2.4000%
Forecast	2009	2.4000%			2.4000%	2.4000%	2.4000%

Total Tax = Registration + Record + Titles + Personal + New Plate + VA Cemetery + Other + Transit + Lien

GF Tax = Total Tax - Lien

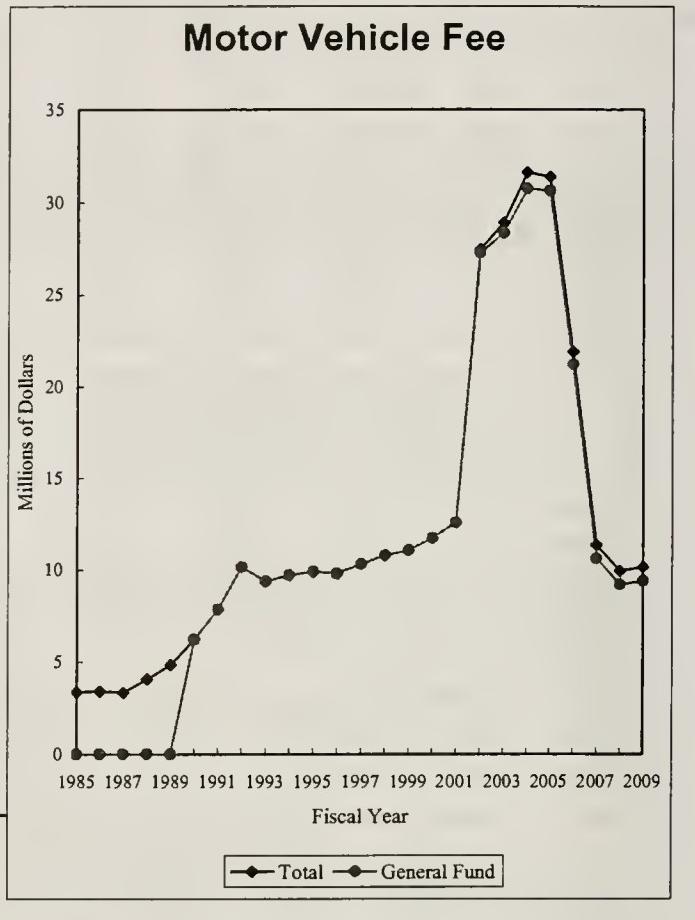
# Legislative Fiscal Division

## Revenue Estimate Profile

### Motor Vehicle Fee

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	3.342315	0.000000	Not App.
A 1986	3.401138	0.000000	Not App.
A 1987	3.332350	0.000000	Not App.
A 1988	4.055326	0.000000	Not App.
A 1989	4.832959	0.000000	Not App.
A 1990	6.207916	6.207916	Not App.
A 1991	7.845076	7.845076	26.37%
A 1992	10.151949	10.151949	29.41%
A 1993	9.381736	9.381736	-7.59%
A 1994	9.720928	9.720928	3.62%
A 1995	9.896182	9.896182	1.80%
A 1996	9.800870	9.800870	-0.96%
A 1997	10.315257	10.315257	5.25%
A 1998	10.778306	10.778306	4.49%
A 1999	11.053035	11.053035	2.55%
A 2000	11.715716	11.715716	6.00%
A 2001	12.548251	12.548251	7.11%
A 2002	27.456893	27.271180	117.33%
A 2003	28.906484	28.352232	3.96%
A 2004	31.602204	30.723879	8.36%
A 2005	31.361863	30.639532	-0.27%
A 2006	21.903344	21.195081	-30.82%
F 2007	11.318000	10.613000	-49.93%
F 2008	9.923000	9.201000	-13.30%
F 2009	10.133000	9.394000	2.10%



**Data Source(s):** SABHRS, Department of Justice

**Contacts:** Department of Justice

# Legislative Fiscal Division

## Revenue Estimate Profile

### Public Contractors Tax

**Revenue Description:** Contractors or subcontractors submitting a proposal to perform construction work in Montana for the federal government, state government, or any political subdivision, must be licensed as a public contractor. A license is not required in order to bid on contracts in which federal aid is used for highway construction, but a license is required once the bid is awarded.

#### Statutory Reference:

Tax Rate (MCA) – 15-50-205

Tax Distribution MCA) – 15-50-311

Date Due – within 30 days after payment to the contractor (15-50-309)

**Applicable Tax Rate(s):** A 1.0 percent license fee is applied to the gross receipts of each separate project let by any of the listed public entities. However, a credit (in the form of a refund) against the license fee is allowed for personal property taxes and certain motor vehicle fees paid in Montana on personal property or vehicles used in the business of the contractor. In addition, the amount of the net license fee paid (gross less the property tax refund) may be used as a credit on the contractor's corporate or individual tax return. Overpayments are also refunded.

**Distribution:** All public contractor tax revenue is deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 0.15%

FY 2005 – 0.09%

FY 2006 – 0.25%

#### Revenue Estimate Methodology:

##### Data

Data for the public contractor's tax are obtained from the state accounting system (SABHRS), the Department of Transportation (DOT), and the Department of Revenue (DOR) and are used to make the public contractors gross receipts tax (PCGRT) estimate. SABHRS data are utilized for total fiscal year tax collections. The DOT provides estimates of highway contracts for future biennia. The DOR provides information on the amounts of credits and refunds paid in each fiscal year.

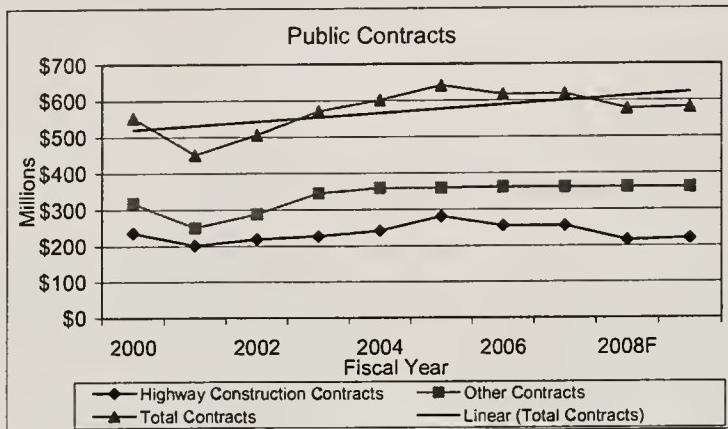
Several steps are involved in preparing the data for analysis. After collecting the SABHRS total collection data, net tax collections are increased to account for the reductions of refunds and credits, creating a proxy for gross tax collections. From there, the gross

# Legislative Fiscal Division

## Revenue Estimate Profile

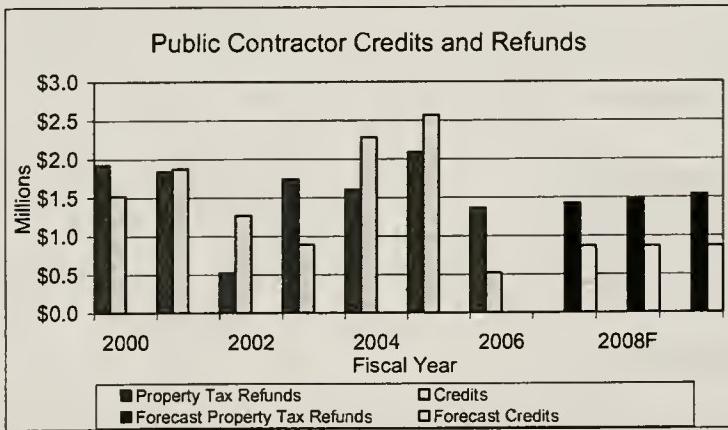
### Public Contractors Tax

tax data must be disaggregated into two containers, highway and all other contracts. This is done by reducing the gross tax by the total amount of highway/road contracts, also obtained through SABHRS. Historically, highway contracts have been responsible for almost 42 percent of the gross tax collections.



The remainder of the gross collections can be credited to other types of contracts. These contracts include forestry, bridge construction, and public building projects. The figure above shows both the aggregated and disaggregated public contract amounts and a trend line illustrating the slow rate of growth inherent in the aggregated public contracts.

The DOR provides historical data of refund and credit activity for the analysis. The PCGRT revenue is highly variable, but the variability is not caused by volatility in the number of contracts but by inconsistencies in processing payment of refunds and credits. As apparent in the figure below, the DOR deferred some of the refund and credit processing in fiscal years 2002 and 2003, creating a processing backlog. Consequently, processing for those years was postponed to fiscal years 2004 and 2005, exaggerating the credit and refund amounts.



PCGRT refunds are made up primarily of refund claims against the class 8-business property tax. Changes in the property tax rate, such as in fiscal 2000 when the rate was reduced from 6 percent to 3 percent, affect the amount of refunds. Credits are authorized for both individual income tax and the corporation license tax. The credit series as observed in the figure above is a combination of both individual and corporation credits.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Public Contractors Tax

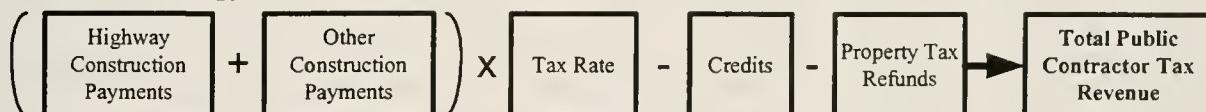
#### Analysis

Analysis of the PCGRT shows a growth of Montana highway contracts at 3.1 percent annually. However, highway contract growth is highly reliant on federal appropriations for highway construction in the state. Each biennium, the DOT legislative budget shows the amount of contracts that are expected in the upcoming biennium. Highway contracts through the DOT are expected to be \$255.7 million, \$214.8 million, and \$219.3 million in fiscal 2007 through fiscal 2009, respectively. While annual growth for "other" contracts has been 3.4 percent, no growth is assumed for the estimated period and other contracts are held constant at \$361.4 million. Next, the annual contract amounts are summed. Finally, the tax rate is applied to the amount of total contracts to determine the gross collections of the PCGRT.

#### Adjustments

Two adjustments reduce gross collections of the PCGRT, income tax credits and property tax refunds. According to the DOR, the backlog in processing has been eliminated, and net collections should appear more consistent in the future. Consequently, growth of the refund and credit activity should become more stable. However, with the passage of SB 323, credits may now be carried forward for up to five succeeding years. According to the fiscal note prepared for SB 323, the credit carryforward will provide additional credits of \$350,000 per year beginning in fiscal 2007. Consequently, total credits are expected to be \$868,379 each fiscal year from 2007 through 2009. Property tax refunds are estimated by developing a relationship between total business property taxes paid and the contractor refunds. This technique produces estimates of property tax refunds that amount to \$1.4 million, \$1.5 million, and \$1.5 million for fiscal years 2007 through 2009, respectively. For the upcoming biennium, the methodology produces PCGRT estimates of \$3.9 million in fiscal 2007, \$3.4 million in fiscal 2008, and \$3.4 million in fiscal 2009.

#### Forecast Methodology



#### Revenue Estimate Assumptions

t	Fiscal	Total Tax Millions	GF Tax Millions	Gross Tax Millions	Credits & Refunds Millions	Tax Rate	DOT Contracts Millions	Other Contracts Millions
Actual	2000	2.162223	2.162223	5.516069	3.444985	0.010000	234.875465	316.731435
Actual	2001	0.791615	0.791615	4.502749	3.711134	0.010000	200.507963	249.766937
Actual	2002	3.267321	3.267321	5.054973	1.787652	0.010000	217.749022	287.748278
Actual	2003	3.081553	3.081553	5.706437	2.624885	0.010000	226.113524	344.530176
Actual	2004	2.120485	2.120485	6.004105	3.883620	0.010000	241.630131	358.780369
Actual	2005	1.410831	1.410831	5.752099	4.341269	0.010000	239.291109	335.918791
Actual	2006	4.274649	4.274649	6.157650	1.883218	0.010000	254.388458	361.376542
Forecast	2007	3.883000	3.883000	6.171168	2.287812	0.010000	255.740256	361.376542
Forecast	2008	3.417000	3.417000	5.761760	2.344589	0.010000	214.799459	361.376542
Forecast	2009	3.403000	3.403000	5.807061	2.403637	0.010000	219.329564	361.376542

Total Tax = (DOT Contracts + Other Contracts) \* Tax Rate - Credits & Refunds

GF Tax = Total Tax

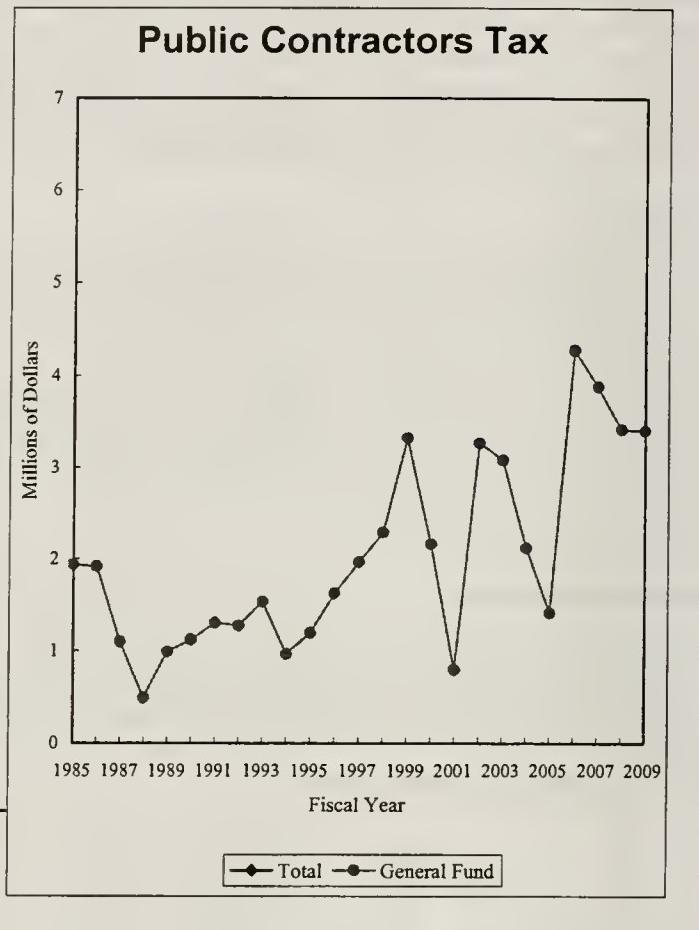
# Legislative Fiscal Division

## Revenue Estimate Profile

### Public Contractors Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.935117	1.935117	Not App.
A 1986	1.916303	1.916303	-0.97%
A 1987	1.094458	1.094458	-42.89%
A 1988	0.488446	0.488446	-55.37%
A 1989	0.987887	0.987887	102.25%
A 1990	1.118458	1.118458	13.22%
A 1991	1.300905	1.300905	16.31%
A 1992	1.270364	1.270364	-2.35%
A 1993	1.530528	1.530528	20.48%
A 1994	0.964193	0.964193	-37.00%
A 1995	1.192445	1.192445	23.67%
A 1996	1.621441	1.621441	35.98%
A 1997	1.963791	1.963791	21.11%
A 1998	2.290944	2.290944	16.66%
A 1999	3.320401	3.320401	44.94%
A 2000	2.162223	2.162223	-34.88%
A 2001	0.791615	0.791615	-63.39%
A 2002	3.267321	3.267321	312.74%
A 2003	3.081553	3.081553	-5.69%
A 2004	2.120485	2.120485	-31.19%
A 2005	1.410831	1.410831	-33.47%
A 2006	4.274649	4.274649	202.99%
F 2007	3.883000	3.883000	-9.16%
F 2008	3.417000	3.417000	-12.00%
F 2009	3.403000	3.403000	-0.41%



**Data Source(s):** SABHRS, Department of Revenue, Department of Transportation

**Contacts:** Department of Revenue, Department of Transportation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Railroad Car Tax

**Revenue Description:** All railroad property is subject to taxation as defined in the federal Railroad Revitalization and Regulatory Reform Act of 1976. The Railroad car tax applies to the rolling stock owned by railroad companies. The railroad car tax rate is the average property tax rate for commercial and industrial property. Railroad car companies, which operate in several states, pay taxes on the portion of the property value allocated to Montana, based on the ratio of the car miles traveled within Montana to the total number of car miles traveled in all states, as well as time spent in the state relative to time spent in other states.

#### Statutory Reference:

Tax Rate (MCA) - 15-23-214(1)

Tax Distribution (MCA) – 15-23-215

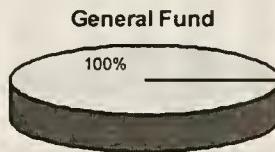
Date Due – Report due to the Department of Revenue April 15<sup>th</sup> of each year for the previous calendar year (15-23-103(2), 15-23-212). The department calculates the tax due by the third Monday in October (15-23-214(1)). One-half of the tax is due by November 30<sup>th</sup> and one-half is due by May 31<sup>st</sup> (15-23-214(3), 15-16-102(1)).

**Applicable Tax Rate(s):** The tax rate is equal to the previous year's average statewide tax rate for commercial and industrial property. This is multiplied by the statewide average mill levy for commercial and industrial property. The most current tax year rates are:

- |                |                |
|----------------|----------------|
| * 2003 – 4.02% | * 2007 – 3.55% |
| * 2004 – 3.88% | * 2008 – 3.37% |
| * 2005 – 3.81% | * 2009 – 3.20% |
| * 2006 – 3.74% |                |

**Distribution:** All revenue from this tax is deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** Semi-annually

#### % of Total General Fund Revenue:

FY 2004 – 0.11%

FY 2005 – 0.10%

FY 2006 – 0.10%

#### Revenue Estimate Methodology:

##### Data

Data from the Department of Revenue (DOR) are used to estimate railcar tax collections. Additionally, SABHRS data are used to check the estimates against the historic values. DOR provides data on the value of national railroad car fleet, Montana's rolling stock, and railroad car tax assessed by company. DOR also provides the historic observations of the average mill levy and applicable tax rate.

# Legislative Fiscal Division

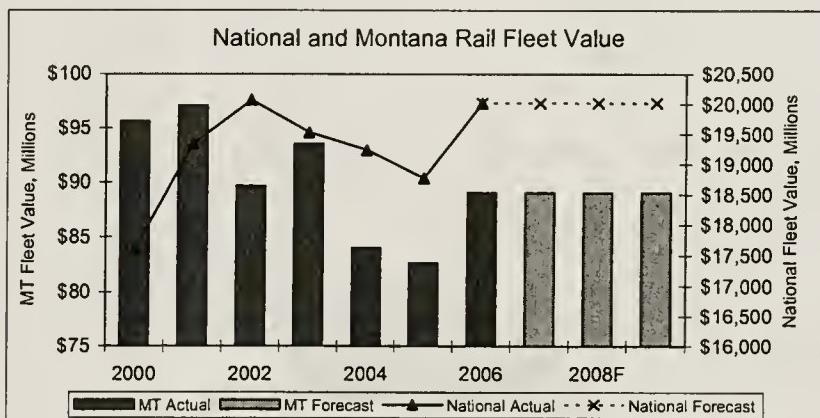
## Revenue Estimate Profile

### Railroad Car Tax

#### Analysis

Although the railcar tax appears quite volatile, most of the volatility is caused by shifts in average mill levies and tax rates, both of which are controlled in large part by factors outside of the growth in rail shipments. Furthermore, a large part of the volatility can be traced to litigation brought by rail companies and settled in federal legislation. In 1993, some rail companies protested tax rates. Tax payments were reduced for four years. Then, in 1997, the litigation was settled and the companies were required to make both past and current payments. Railroad properties are taxed as class 12 properties. To calculate total railroad car tax collections (class 12 property), the market value of the Montana fleet is multiplied by the average mill levy and tax rate.

The estimate of the railroad car tax is based on the market value of the rail fleet in Montana. Before the market value can be ascertained, some preliminary estimates must be developed. As illustrated in the figure below, the market value of Montana's fleet is based on a relationship with market value of the U.S. fleet. Consequently, an estimate for the value of the national fleet is developed using the average rate of growth in the U.S. fleet value, based on a four-year pattern of growth. That rate is then applied to the last year of actual fleet value available. Next, a measure of the apportionment of Montana fleet value is developed in percent terms. The apportionment is then applied to the estimate for the national fleet market value to determine the Montana railroad fleet market value. Since the mid 1990's, the market value of Montana's rail fleet has been about 0.56 percent of the nation's fleet. However in recent years, Montana's proportion of rail fleet market value has diminished to 0.45 percent of the nation's fleet value. For the purpose of estimating future railroad car tax collections, the most recent ratio of Montana market fleet value to national fleet value is used, 0.45 percent. This process provides estimates for the market value of Montana rolling stock of \$89.1 million in fiscal 2007 through fiscal 2009.



After the Montana market fleet value is determined, the average commercial and industrial mill levy and tax rate must be calculated. The rate of the mill levy is calculated from the average of statewide commercial and industrial mill levies. The average mill levy is expected to increase because counties are able to raise levies at a rate equal to half of the annual rate of inflation. Furthermore, the increasing costs of school budgets will further force the average mill levy to increase. The calculated mill levy estimates are 0.516 percent in fiscal 2007, 0.522 percent in fiscal 2008, and 0.528 percent in fiscal 2009.

The tax rate for the railroad property is created from a weighted average of five property classes: class 4, 7, 8, 9, and 13. Class 4 property tax, which is the residential and commercial property tax, is weighted more heavily than the other classes. In the 2009 biennium, class 4 property tax rates will decrease, the result of SB 461 passed in the 2005 session, to mitigate the increasing property values occurring in the current appraisal cycle. Consequently, class 4 property taxes are expected to drop by 0.07 percent annually through fiscal 2009. The other four classes are scheduled to remain constant. The estimated tax rate will be 3.6 percent fiscal 2007, 3.4 percent in fiscal 2008, and 3.2 percent in fiscal 2009.

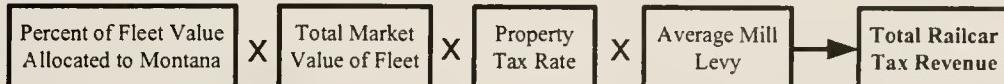
Finally, the rail car tax estimates are completed by multiplying the Montana market value by the average mills and the tax rate.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Railroad Car Tax

#### Forecast Methodology



#### Revenue Estimate Assumptions

<u>t</u>	Total Tax <u>Fiscal</u> Millions	GF Tax Millions	Total MV of Fleet Millions	MT Allocation Percent	MT MV of Fleet Millions	Tax Rate	Mills 95/100 %	
Actual	2000	2.100600	2.100600	17582.615541	0.005439	95.626964	0.060800	0.363540
Actual	2001	1.555747	1.555747	19335.425780	0.005021	97.074849	0.042700	0.380060
Actual	2002	1.489813	1.489813	20065.083606	0.004468	89.657366	0.042100	0.400980
Actual	2003	1.484264	1.484264	19527.799607	0.004791	93.549116	0.040200	0.419254
Actual	2004	1.567868	1.567868	19231.928074	0.004369	84.019893	0.038800	0.474429
Actual	2005	1.604005	1.604005	18767.654718	0.004404	82.645528	0.038100	0.487040
Actual	2006	1.667441	1.667441	20014.411877	0.004450	89.055569	0.037400	0.509510
Forecast	2007	1.631000	1.631000	20014.411877	0.004450	89.064133	0.035500	0.515710
Forecast	2008	1.567000	1.567000	20014.411877	0.004450	89.064133	0.033700	0.521990
Forecast	2009	1.506000	1.506000	20014.411877	0.004450	89.064133	0.032000	0.528340

Total Tax = Total MV of Fleet \* MT Allocation \* Tax Rate \* Mills

GF Tax = Total Tax

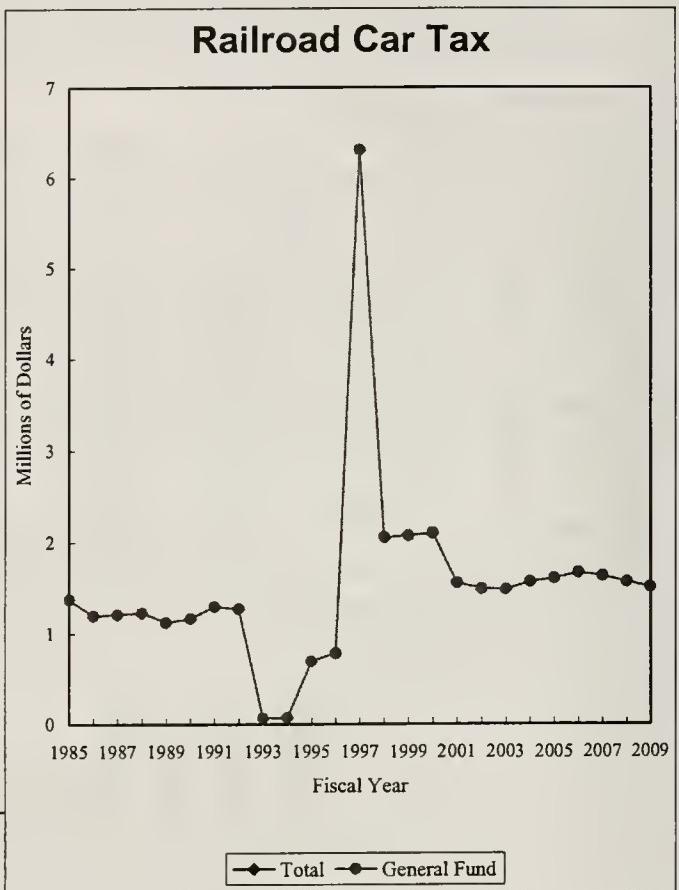
# Legislative Fiscal Division

## Revenue Estimate Profile

### Railroad Car Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.379418	1.379418	Not App.
A 1986	1.195066	1.195066	-13.36%
A 1987	1.212219	1.212219	1.44%
A 1988	1.229618	1.229618	1.44%
A 1989	1.125739	1.125739	-8.45%
A 1990	1.166312	1.166312	3.60%
A 1991	1.297794	1.297794	11.27%
A 1992	1.272134	1.272134	-1.98%
A 1993	0.059930	0.059930	-95.29%
A 1994	0.066530	0.066530	11.01%
A 1995	0.691978	0.691978	940.10%
A 1996	0.780125	0.780125	12.74%
A 1997	6.308625	6.308625	708.67%
A 1998	2.054244	2.054244	-67.44%
A 1999	2.073619	2.073619	0.94%
A 2000	2.100600	2.100600	1.30%
A 2001	1.555747	1.555747	-25.94%
A 2002	1.489813	1.489813	-4.24%
A 2003	1.484264	1.484264	-0.37%
A 2004	1.567868	1.567868	5.63%
A 2005	1.604005	1.604005	2.30%
A 2006	1.667441	1.667441	3.95%
F 2007	1.631000	1.631000	-2.19%
F 2008	1.567000	1.567000	-3.92%
F 2009	1.506000	1.506000	-3.89%



**Data Source(s):** SABHRS, Department of Revenue

**Contacts:** Railroad Car Companies, Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Rental Car Sales Tax

**Revenue Description:** Beginning July 1, 2003, a new four percent sales tax is imposed on the base rental charge for rental vehicles. The base rental charge includes use charges for time and mileage, insurance, accessory equipment, and charges for additional or underage drivers. It does not include price discounts, charges for operating an airport concession, motor fuel, intercity drop charges, and government taxes. A rental vehicle is one that is used by a person other than the owner by arrangement and for consideration. Included are light vehicles, motorcycles, motor-driven cycles, quadricycles, motorboats and sailboats, and off-highway vehicles. Sales to the U.S. government are exempt from the sales tax. All facilities subject to the tax must obtain a seller's permit before engaging in business subject to the sales tax within Montana. The Department of Revenue may require a retailer to post security up to twice the average tax liability to be used to recover taxes, interest, and penalties owed. Vendors are allowed to claim and keep five percent of the tax as an allowance, not to exceed \$1,000 a quarter.

#### Statutory Reference:

Tax Rate (MCA) - 15-68-102(1b)

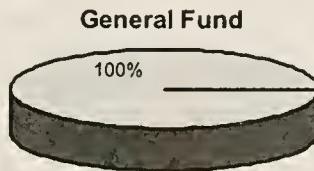
Tax Distribution MCA) - 15-68-820

Date Due - before the last day of the month following the calendar quarter (15-68-502(1))

**Applicable Tax Rate(s):** A four percent sales tax is imposed on the base rental charge for rental vehicles.

**Distribution:** All revenue from this tax is deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** The vendor must pay the tax due by the last day of the month following a calendar quarter.

#### % of Total General Fund Revenue:

FY 2004 - 0.18%

FY 2005 - 0.17%

FY 2006 - 0.16%

#### Revenue Estimate Methodology:

##### Data

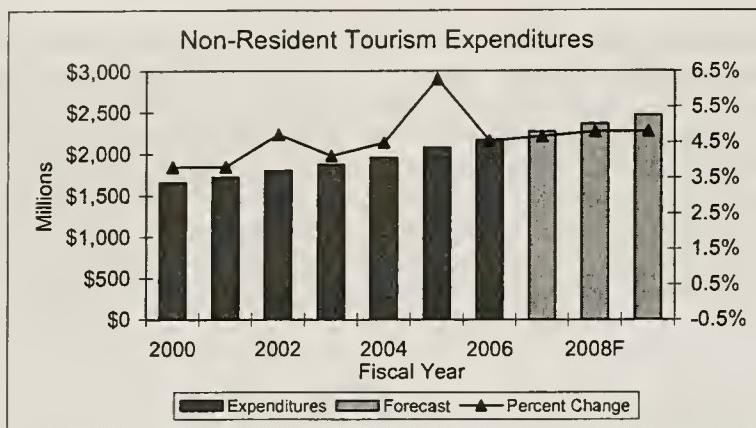
The estimate of the rental car sales tax requires data from two sources, the state accounting system (SABHRS) and the Institute for Tourism and Recreation Research (ITRR). The SABHRS data includes the historic tax collection observations and the ITRR data provides the historic growth associated with the tourism industry.

SABHRS data provides only three historical collection observations of the rental car sales tax. Because the data is so limited, ITRR data is used to provide a proxy for future growth with their Montana non-resident tourism expenditure data series. The unadjusted (inflationary) series is used because the tax is based on a percentage of the rental costs of vehicles. As seen in the figure below, tourism expenditures are expected to experience slow growth in future years. Historically, the growth of non-resident tourism expenditures has varied between 3.8 percent in fiscal 2000 and 5.4 percent in fiscal 2005. Inflation during the period fluctuated between 2.2 percent reported in fiscal 2000 to 3.0 percent reported in fiscal 2005. Average inflation during the period was 2.5 percent.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Rental Car Sales Tax



Before analysis can begin on the rental car tax, a proxy value for rental car expenditures must be developed. This calculation is made by dividing historic tax receipts, provided through SABHRS, by the current tax rate. The proxy is then related to the non-resident tourism expenditures on a proportional basis.

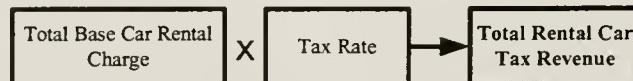
#### Analysis

Because of the recent nature of the rental car sales tax, neither a trend nor a regression model provides adequate results for estimating future collections. Consequently, future growth in the rental car sales tax is based on the average growth of non-resident tourism expenditures, which is currently 4.4 percent. To develop the proxy of rental car expenditures from fiscal 2006, the last year of actual collections data, fiscal 2006, is increased by the average rate of growth. This methodology produces estimates of \$2.8 million in fiscal 2007, \$3.0 million in fiscal 2008, and \$3.1 million in fiscal 2009. As the tax is imposed in future years, historic growth rates will become available, which will enable the calculation of growth rates from actual data.

#### Adjustment and Distribution

The final step in development of the rental car sales tax projection is to reduce the projection by credits and audits. Credits may be requested by vendors for tax payments on dollars that are later recognized as bad debt. Additionally, a credit is allowed if a similar tax has been levied and paid in another state on property that was leased outside this state but used in the state. Additionally, the DOR may audit the accounts of vendors who pay the rental car sales tax, and both positive and negative adjustments may be made to the total collections. To date, no credits or audits have occurred.

#### **Forecast Methodology**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Rental Car Sales Tax

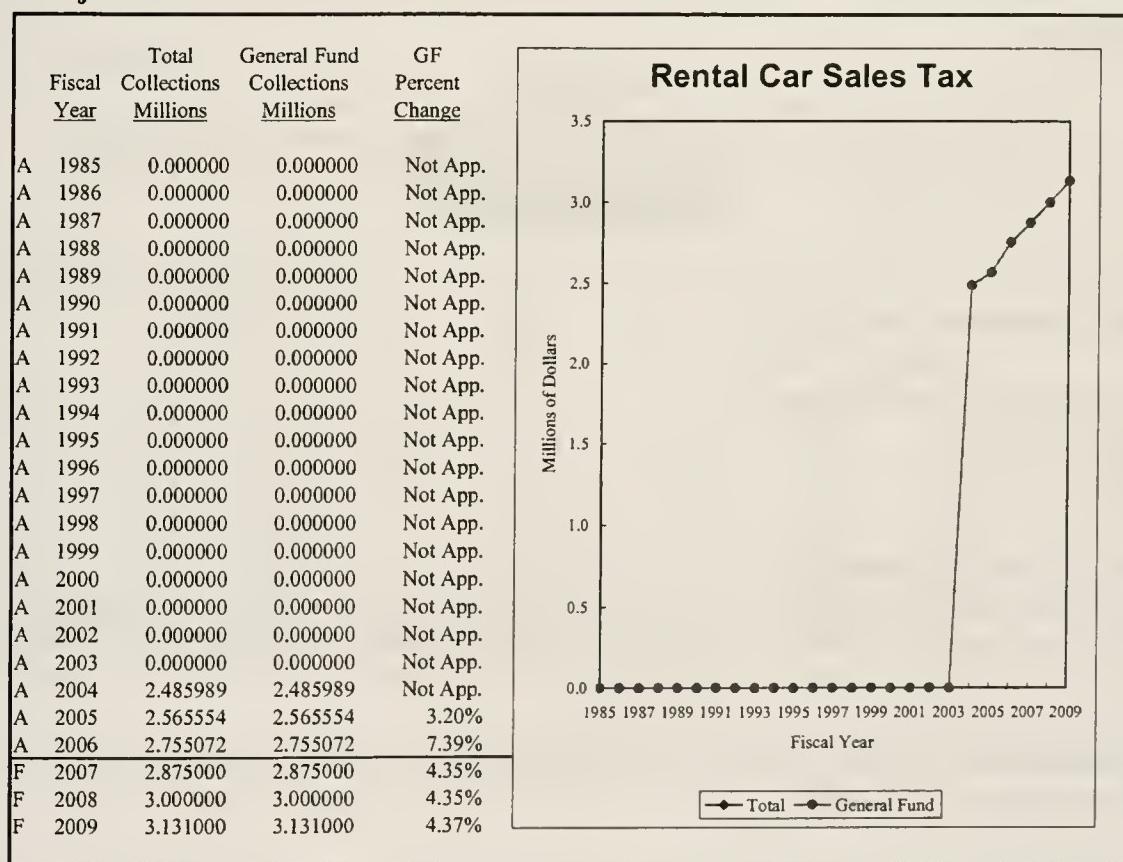
#### Revenue Estimate Assumptions

	<u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Taxable Sales <u>Millions</u>	Tax Rate <u>Percent</u>	Credits <u>Millions</u>	Audits <u>Millions</u>
Actual	2000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2001	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2002	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2003	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2004	2.485989	2.485989	62.149725	0.040000	0.000000	0.000000
Actual	2005	2.565554	2.565554	64.138850	0.040000	0.000000	0.000000
Actual	2006	2.755072	2.755072	68.876800	0.040000	0.000000	0.000000
Forecast	2007	2.875000	2.875000	71.879828	0.040000	0.000000	0.000000
Forecast	2008	3.000000	3.000000	75.013789	0.040000	0.000000	0.000000
Forecast	2009	3.131000	3.131000	78.284390	0.040000	0.000000	0.000000

Total Tax = Taxable Sales \* Tax Rate - Credits + Audits

GF Tax = Total Tax

#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Revenue

**Contacts:** Rental Car Companies

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Telecommunications Excise Tax

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**Revenue Description:** The retail telecommunications excise tax is levied on the sales price of retail telecommunications services originating or terminating in the state. It is paid by the retail purchaser and collected by the provider.

**Statutory Reference:**

Tax Rate (MCA) – 15-53-130

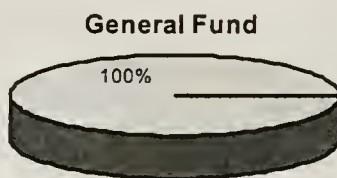
Tax Distribution (MCA) – 15-53-156

Date Due – 60 days after the end of the calendar quarter (15-53-139)

**Applicable Tax Rate(s):** The current tax rate of 3.75% is applied to the sales price of retail telecommunications services. Sales price includes payment for services such as distribution, supply, transmission, and delivery, but excludes federal taxes, relocation of service, equipment repair, prepaid calling cards, and other items. Gross receipts from the provision of internet services are also exempt. Credits previously allowed for costs of advanced telecommunications infrastructure improvements were repealed in House Bill 96 by the 2003 legislature.

**Distribution:** After retaining an allowance for refunds, all proceeds are deposited into the general fund.

**Distribution Chart:**



**Collection Frequency:** Quarterly

**% of Total General Fund Revenue:**

FY 2004 - 1.51%

FY 2005 - 1.38%

FY 2006 - 1.24%

**Revenue Estimate Methodology:**

The retail telecommunications tax is applied to the sales price of services provided. The estimate for the tax revenue is derived by estimating the annual sales price of services provided for the 3-year period in question. Using these estimates of sales, the tax rate is applied.

**Data**

Data from quarterly reports produced by DOR provide a history of retail telecommunications sales for each individual company. CPI data is obtained from Global Insight.

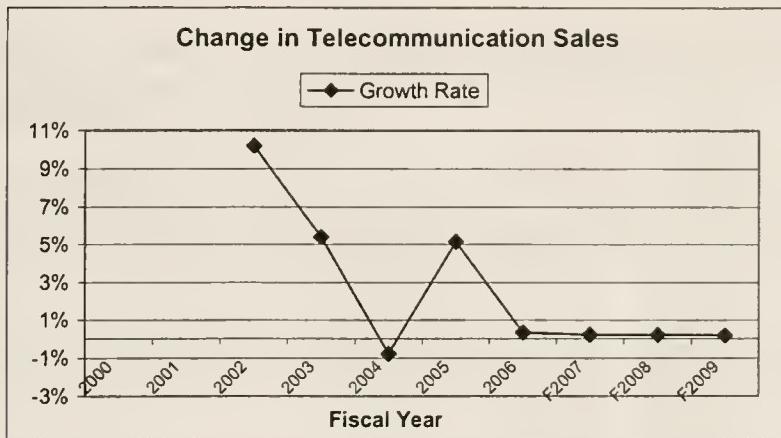
**Analysis**

The total retail telecommunication sales are reported by the DOR. The ratio of the growth rate in sales from the previous fiscal year to the CPI rate as report by Global Insight for that year is multiplied by the CPI rate for the current year. The resulting growth rate is applied to the sales of the previous year. Yearly estimated taxable sales are multiplied by the tax rate to derive total revenue from this source.

# Legislative Fiscal Division

## Revenue Estimate Profile

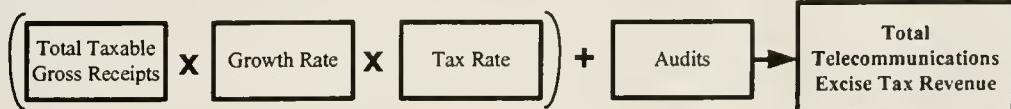
### Telecommunications Excise Tax



#### Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

#### Forecast Methodology



#### Revenue Estimate Assumptions

	<u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Taxable Sales <u>Millions</u>	Tax Rate <u>Percent</u>	Credits <u>Millions</u>	Audits <u>Millions</u>
Actual	2000	6.366299	6.366299	182.127040	0.037500	0.000000	0.000000
Actual	2001	18.838200	18.838200	465.259867	0.037500	0.429045	1.820000
Actual	2002	19.593501	19.593501	512.754187	0.037500	0.252198	0.617417
Actual	2003	20.804524	20.804524	540.397200	0.037500	0.004069	0.543698
Actual	2004	20.890335	20.890335	536.138960	0.037500	0.052757	0.837881
Actual	2005	21.144420	21.144420	563.779627	0.037500	0.000000	0.002684
Actual	2006	21.208947	21.208947	565.571920	0.037500	0.000000	0.000000
Forecast	2007	21.255000	21.255000	566.788465	0.037500	0.000000	0.000000
Forecast	2008	21.298000	21.298000	567.927143	0.037500	0.000000	0.000000
Forecast	2009	21.335000	21.335000	568.911929	0.037500	0.000000	0.000000

Total Tax = Taxable Sales \* Tax Rate - Credits + Audits

GF Tax = Total Tax

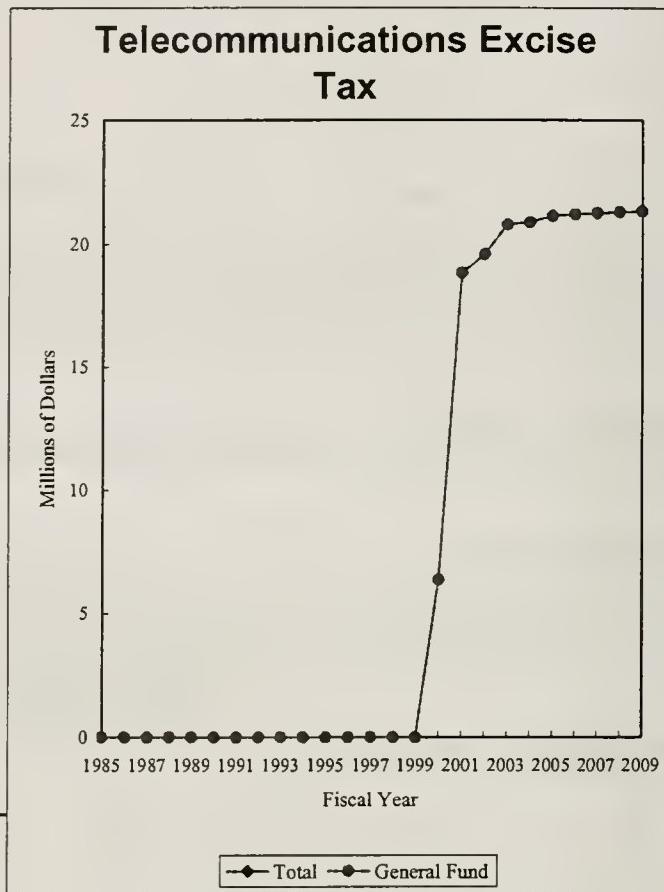
# Legislative Fiscal Division

## Revenue Estimate Profile

### Telecommunications Excise Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	0.000000	0.000000	Not App.
A 1993	0.000000	0.000000	Not App.
A 1994	0.000000	0.000000	Not App.
A 1995	0.000000	0.000000	Not App.
A 1996	0.000000	0.000000	Not App.
A 1997	0.000000	0.000000	Not App.
A 1998	0.000000	0.000000	Not App.
A 1999	0.000000	0.000000	Not App.
A 2000	6.366299	6.366299	Not App.
A 2001	18.838200	18.838200	195.91%
A 2002	19.593501	19.593501	4.01%
A 2003	20.804524	20.804524	6.18%
A 2004	20.890335	20.890335	0.41%
A 2005	21.144420	21.144420	1.22%
A 2006	21.208947	21.208947	0.31%
F 2007	21.255000	21.255000	0.22%
F 2008	21.298000	21.298000	0.20%
F 2009	21.335000	21.335000	0.17%



**Data Source(s):** SABHRS, Department of Revenue

**Contacts:** Major Telecommunications Companies

# Legislative Fiscal Division

## Revenue Estimate Profile

### Vehicle Tax

**Revenue Description:** Light vehicles, motorcycles and quadricycles, snowmobiles, buses, trucks, truck tractors having a manufacturer's rated capacity of more than 1 ton, motor homes, and certain trailers and travel trailers are taxed under a fee schedule that varies by age and weight.

Before January 1, 2001 light vehicles were taxed on an ad valorem basis. As a result of Referendum (LR) 115 (HB540), passed by the electorate in November 2000, light vehicles pay a fee-in-lieu of tax (FILT). The fee is \$195 for light vehicles of age between zero and four years, \$65 for vehicles between five and ten years of age, and \$6 for vehicles over ten years old. Owners of vehicles greater than ten years old may pay \$50 for a permanent registration.

Effective January 1, 2003, the fee schedule on heavy trucks is reduced by 1/6<sup>th</sup> for calendar 2003, by 1/3<sup>rd</sup> for calendar 2004 and by ½ for calendar 2005. These changes were enacted by HB 247 in the 2003 legislative session. The fee schedule for truck varies by age and weight capacity.

Effective January 1, 2004, the fees-in-lieu-of-tax on motorcycles and quadricycles, trailers and travel trailers, snowmobiles, watercraft, off-highway vehicles are one-time payments, except upon change of ownership. These one-time fees in calendar 2004 doubled in calendar 2005 and thereafter.

Due to changes enacted by HB 671 and SB 285 in the 2005 legislature, registration fee revenue reported by counties on the county collection report are now being recorded as vehicle taxes. Therefore, revenue shown for this source shows an increase from FY 2005, but revenue decreases by a like amount in the "Motor Vehicle Fee" revenue source.

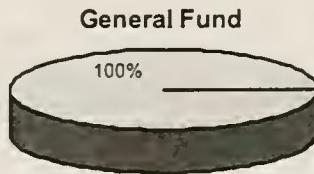
#### Statutory Reference:

- Tax Rate (MCA) – watercraft one-time (23-2-516), snowmobiles one-time (23-2-626), OHV one-time (23-2-803), vehicles greater than 1 ton (61-3-529)
- Tax Distribution (MCA) – watercraft (23-2-518), snowmobiles (23-2-619(7)), OHV (23-2-803), light vehicles (61-3-509), motorcycles and quadricycles (61-3-509), motor homes (61-3-509), vehicles greater than 1 ton (61-3-509)
- Date Due – County treasurers remit the revenue to the Department of Revenue every 30 days (15-1-504 & 61-3-509).

#### Applicable Tax Rate(s): Varies

**Distribution:** All fees-in-lieu-of-tax are deposited in the general fund.

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 6.05%  
FY 2005 – 5.23%  
FY 2006 – 5.39%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Vehicle Tax

#### Revenue Estimate Methodology:

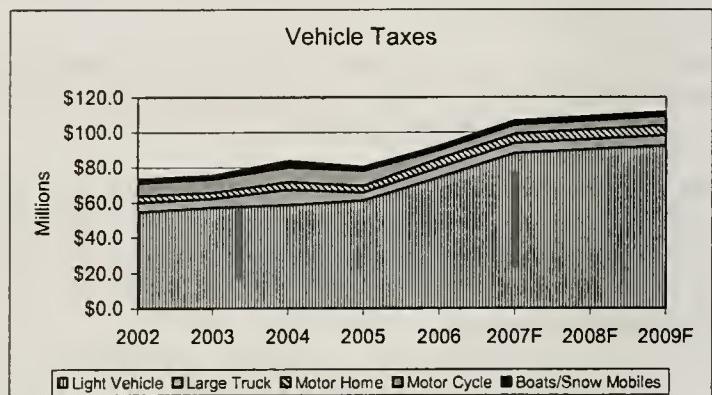
##### Data

The data used to estimate the motor vehicle tax are obtained from the state accounting system (SABHRS) and Global Insight. No adjustments are required on the raw data in preparation for analysis.

##### Analysis

Vehicle taxes are currently imposed at different rates on five categories of vehicles (tax schedule varies by age and weight) including light vehicles, large trucks, motor homes, motor cycles (including tri-cycles), and boats and snowmobiles. As shown in the figure below, the taxes have increased at a slow rate since fiscal 2002. The figure below also shows greater rate of growth for light vehicle taxes in fiscal 2006 and fiscal 2007. This growth results from the legislative impacts of SB 285 and HB 671, both implemented in the 2005 session. Analysis shows that the trend of slow growth is expected to continue through the estimated period.

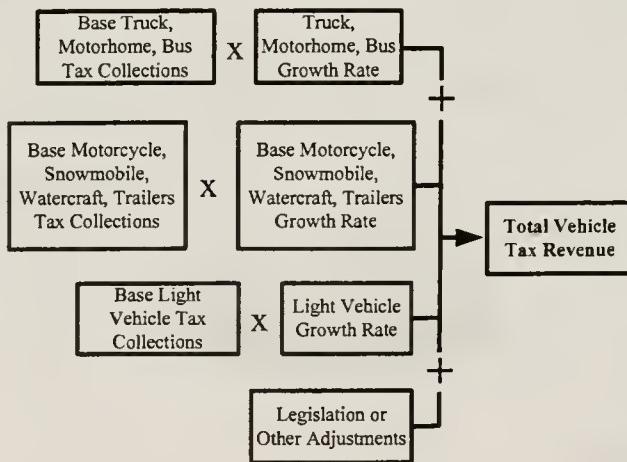
The future growth in vehicle taxes results from growth in the vehicle stock in Montana. Because tax payments are directly connected to the number of vehicles in the state, estimates for the vehicle tax are made by applying the growth rate for the national vehicle stock, as projected by Global Insight. For the estimated period, that growth rate is expected to be 2.4 percent. The growth rate is applied to the base year (fiscal 2006) of each of the vehicle categories and carried forward at the same rate through fiscal 2009. Finally, the estimated tax collections of each category are combined to create the total estimates for the vehicle tax.



##### Adjustments

In past years, adjustments to vehicle taxes have been required as a result of legislative actions. For these estimates, no adjustments are required.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Vehicle Tax

#### Revenue Estimate Assumptions:

	<u>t</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Non-GF Tax <u>Millions</u>	Legislation <u>Millions</u>
	Fiscal				
Actual	2000				
Actual	2001				
Actual	2002	73.091930	73.127444	-0.035514	
Actual	2003	75.185832	75.185331	0.000501	
Actual	2004	83.606576	83.606576	0.000000	
Actual	2005	80.132416	80.132416	0.000000	0.000000
Actual	2006	92.097303	92.097303	0.000000	0.000000
Forecast	2007	106.473000	106.473000	0.000000	0.000000
Forecast	2008	109.028000	109.028000	0.000000	0.000000
Forecast	2009	111.645000	111.645000	0.000000	0.000000

	<u>t</u>	Large Truck <u>Millions</u>	Motor Home <u>Millions</u>	Light Vehicle <u>Millions</u>	Boats/ Snow <u>Millions</u>	MCO Registration <u>Millions</u>	District Courts <u>Millions</u>
	Fiscal						
Actual	2000						
Actual	2001						
Actual	2002	5.383664	3.607418	54.602101	2.075694	7.458568	-0.035514
Actual	2003	5.116869	3.342342	56.961345	2.195942	7.568832	0.000000
Actual	2004	8.562457	4.484770	58.457160	3.980061	8.122128	0.000000
Actual	2005	4.433347	3.834690	60.940073	2.369148	8.555157	0.000000
Actual	2006	5.576714	5.235701	73.979874	2.325379	4.979634	0.000000
Forecast	2007	5.710555	5.361358	87.920431	2.381188	5.099145	0.000000
Forecast	2008	5.847608	5.490031	90.030521	2.438337	5.221524	0.000000
Forecast	2009	5.987951	5.621792	92.191254	2.496857	5.346841	0.000000

	<u>t</u>	Large Truck <u>Rate</u>	Motor Home <u>Rate</u>	Light Vehicle <u>Rate</u>	Boats/ Snow <u>Rate</u>	MCO Registration <u>Rate</u>
	Fiscal					
Actual	2000					
Actual	2001					
Actual	2002					
Actual	2003	0.028648	-0.049556	-0.073481	0.043208	0.057931
Actual	2004	0.111999	0.673378	0.341805	0.026260	0.812462
Actual	2005	-0.041554	-0.482234	-0.144953	0.042474	-0.404746
Actual	2006	0.149314	0.257902	0.365352	0.213977	-0.018475
Forecast	2007	0.024000	0.024000	0.024000	0.024000	0.024000
Forecast	2008	0.024000	0.024000	0.024000	0.024000	0.024000
Forecast	2009	0.024000	0.024000	0.024000	0.024000	0.024000

Total Tax = Large Trucks + Motor Home + Light Vehicle + Boats/Snow + MCO Registration

GF Tax = Total Tax

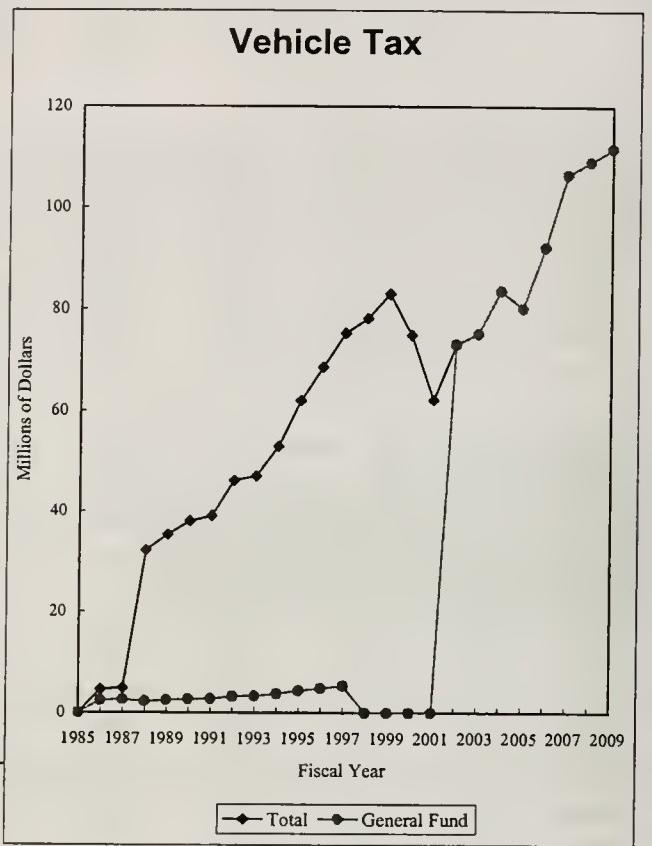
# Legislative Fiscal Division

## Revenue Estimate Profile

### Vehicle Tax

#### Revenue Projection:

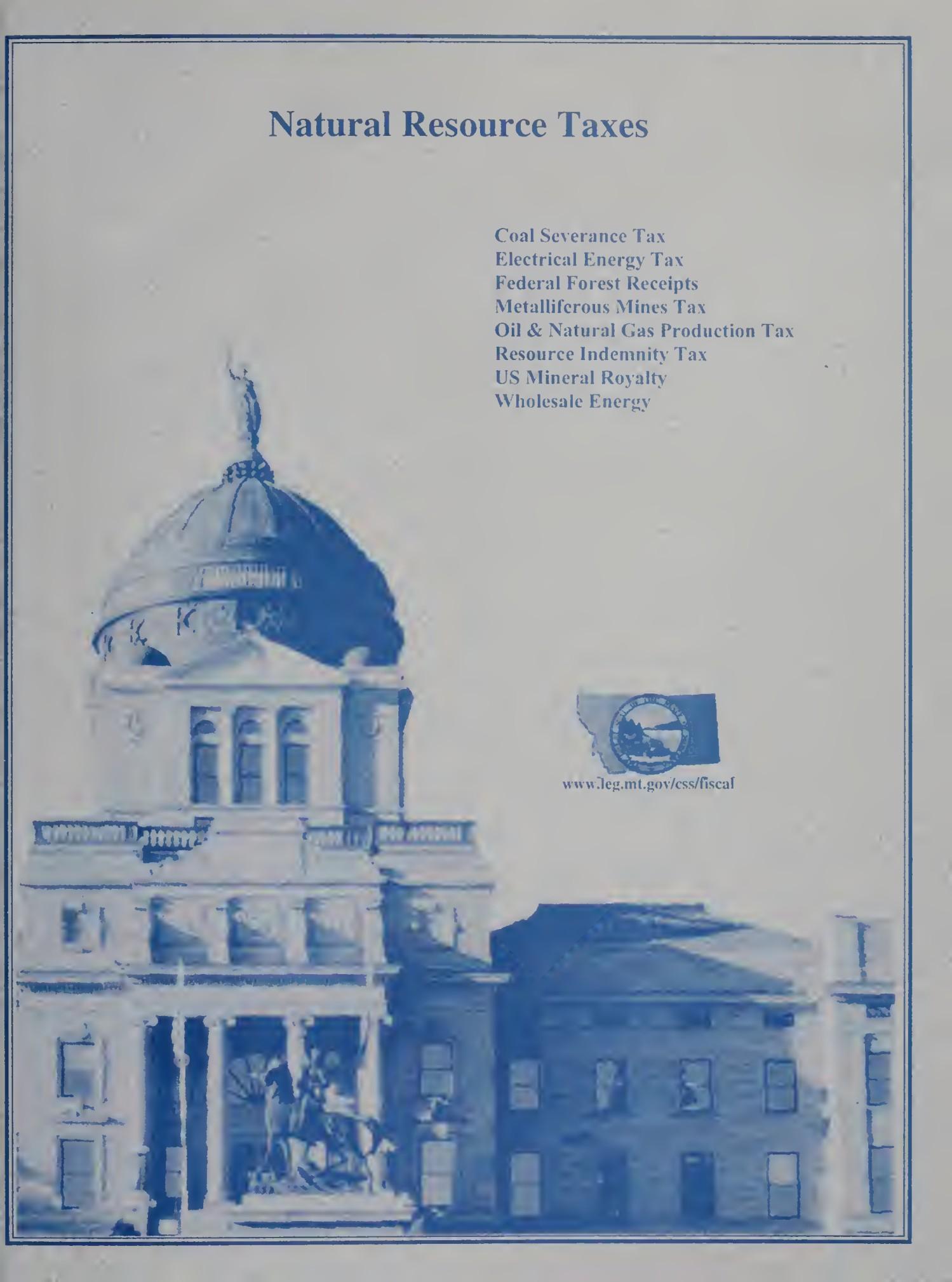
Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	4.524027	2.409577	Not App.
A 1987	4.880792	2.608426	8.25%
A 1988	32.216414	2.255149	-13.54%
A 1989	35.306743	2.471472	9.59%
A 1990	38.024086	2.661686	7.70%
A 1991	39.102029	2.737142	2.83%
A 1992	46.095786	3.226705	17.89%
A 1993	46.976700	3.288369	1.91%
A 1994	52.908729	3.703611	12.63%
A 1995	62.029200	4.342044	17.24%
A 1996	68.641271	4.804889	10.66%
A 1997	75.330243	5.273117	9.74%
A 1998	78.210343	0.000000	-100.00%
A 1999	83.005171	0.000000	Not App.
A 2000	74.950871	0.000000	Not App.
A 2001	62.172220	0.000000	Not App.
A 2002	73.091930	73.127444	Not App.
A 2003	75.185832	75.185331	2.81%
A 2004	83.606576	83.606576	11.20%
A 2005	80.132416	80.132416	-4.16%
A 2006	92.097303	92.097303	14.93%
F 2007	106.473000	106.473000	15.61%
F 2008	109.028000	109.028000	2.40%
F 2009	111.645000	111.645000	2.40%



**Data Source(s):** Department of Justice, SABHRS

**Contacts:** Department of Justice

# Natural Resource Taxes



Coal Severance Tax  
Electrical Energy Tax  
Federal Forest Receipts  
Metalliferous Mines Tax  
Oil & Natural Gas Production Tax  
Resource Indemnity Tax  
US Mineral Royalty  
Wholesale Energy



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Severance Tax

**Revenue Description:** For large producers, the coal severance tax is imposed on all coal production in excess of 20,000 tons per company per calendar year. However, producers of 50,000 tons or less in any calendar year are exempt from the tax.

#### Statutory Reference:

Tax Rate (MCA) – 15-35-103

Tax Distribution (MCA) – Montana Constitution, Article IX, Section 5; 15-35-108

Date Due – the report to the Department of Revenue and tax is due 30 days following the close of the quarter (15-35-104)

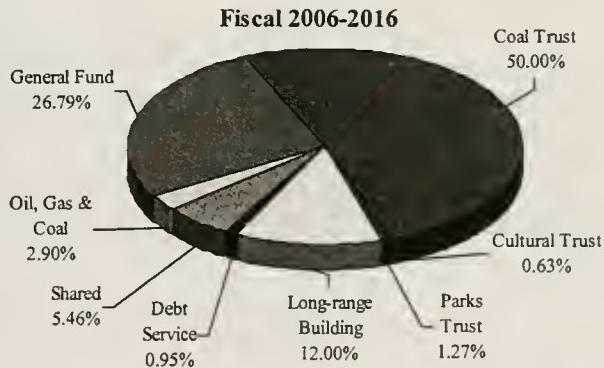
**Applicable Tax Rate(s):** 10.0% - on the value of coal with a heating quality < 7,000 BTU  
15.0% - on the value of coal with a heating quality > 7,000 BTU

#### Distribution: (Percentage)

Account Name	Fiscal 1998 – 1999	Fiscal 2000 – 2002	Fiscal 2003	Fiscal 2004 – 2005	Fiscal 2006 – 2016
Permanent Trust	25.00	0.00	0.00	12.50	0.00
Treasure State Endowment	25.00	37.50	37.50	25.00	25.00
TSEP Regional Water	0.00	12.50	12.50	12.50	12.50
Big Sky Economic Development	0.00	0.00	0.00	0.00	12.50
General Fund	25.25	26.79	33.04	27.40	26.79
LRBP – Cash Account	12.00	12.00	10.00	12.00	12.00
LRBP – Debt Service	1.30	0.00	0.00	0.00	0.00
Park Acquisition Trust	1.27	1.27	0.00	1.27	1.27
Cultural Trust	0.00	0.63	0.00	0.63	0.63
Cultural & Aesthetic Projects	0.87	0.00	0.00	0.00	0.00
Water Development	0.95	0.95	0.95	0.95	0.95
Oil, Gas & Coal Natural Res.	0.00	0.00	0.00	0.00	2.90
Shared Account *	8.36	8.36	6.01	7.75	5.46

\* Used for Growth Through Agriculture, State Library, Conservation Districts, Coal Board (before FY 2006), and County Land Planning (before FY 2004).

#### Distribution Chart:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Severance Tax

**Collection Frequency:** Quarterly: The coal severance tax is due 30 days after the end of the quarter.

#### % of Total General Fund Revenue:

FY 2004 - 0.63%

FY 2005 - 0.67%

FY 2006 - 0.56%

#### Revenue Estimate Methodology:

The coal severance tax is applied to the value of coal produced. The coal severance tax estimate is developed by estimating the annual contract sales price and production for each producing coal company and any company anticipated to be producing within the 3-year period in question. From these estimates, taxable value can be determined to which is applied the tax rate. Since all production and price information is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

#### Data

Major coal companies are surveyed for anticipated production levels and general indications of coal prices. In addition, a review is performed of historical trends and current literature on coal prices. Data from quarterly reports produced by DOR provide a history of production and prices for individual coal companies. These companies are:

Decker Coal Company

Spring Creek Coal Company

Western Energy Company

Westmoreland Savage Corporation

#### Analysis

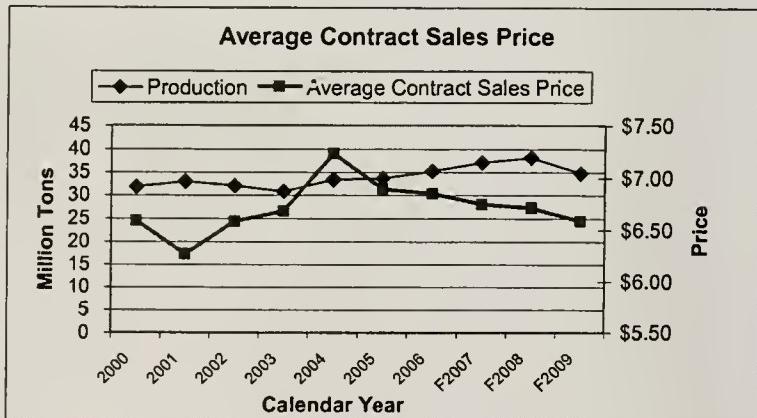
The taxable value of coal is determined in a three-step process:

1. The future coal production for each company, as reported on the survey, is reduced by the exempt amount of 20,000 tons to get taxable tons.
2. To determine the future price for each company's coal, the company's average contract sales price for the last year was used since prices have remained stable for several years. The average contract sales price for all companies is shown in the figure below.
3. The estimated production and price for each company are multiplied together and the product for all companies summed to obtain the total taxable value.

The taxable value is multiplied by the applicable tax rate (10 or 15 percent) to determine total coal severance tax revenue. At this point the total represents estimates for calendar years. To convert the estimates to a fiscal year basis, half the previous calendar year's estimate is added to the half of the current calendar year's estimate.

#### Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentages are applied.

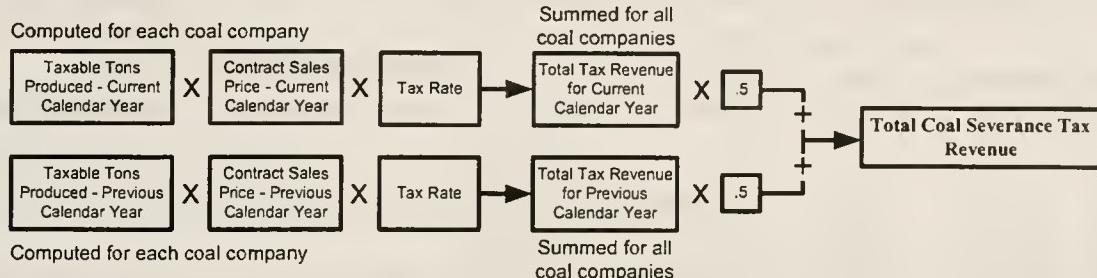


# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Severance Tax

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax Millions	GF Tax Millions	GF Allocation Percent	Tons (FY) Millions	CSP (FY) Dollars	Fiscal Effective Rate
Actual	2000	35.469791	9.502357	0.267900			
Actual	2001	32.337172	8.663128	0.267900			
Actual	2002	31.614047	8.469404	0.267900			
Actual	2003	29.423547	9.721540	0.330400			
Actual	2004	31.544681	8.643243	0.274000			
Actual	2005	37.634511	10.311856	0.274000			
Actual	2006	35.821524	9.596586	0.267900			
Forecast	2007	36.630000	9.813000	0.267900	36.095700	6.796709	0.149308
Forecast	2008	37.752000	10.114000	0.267900	37.567700	6.729608	0.149326
Forecast	2009	36.164000	9.688000	0.267900	36.411700	6.651880	0.149311

	<u>t</u> <u>Cal</u>	Tons (CY) Millions	CSP (CY) Dollars	Tax Rate	Tax Rate	Calendar Tax	Effective Rate
Actual	2000	31.784308	6.588243	0.150000	0.100000	31.253448	0.149250
Actual	2001	32.961265	6.266994	0.150000	0.100000	30.883924	0.149510
Actual	2002	31.980880	6.583257	0.150000	0.100000	31.441574	0.149339
Actual	2003	30.802151	6.680719	0.150000	0.100000	30.701209	0.149194
Actual	2004	33.365039	7.233763	0.150000	0.100000	36.030034	0.149282
Actual	2005	33.632110	6.888637	0.150000	0.100000	34.599359	0.149342
Actual	2006	35.173200	6.849089	0.150000	0.100000	35.966546	0.149298
Forecast	2007	37.018200	6.746939	0.150000	0.100000	37.293840	0.149319
Forecast	2008	38.117200	6.712776	0.150000	0.100000	38.211234	0.149337
Forecast	2009	34.706200	6.584999	0.150000	0.100000	34.116846	0.149282

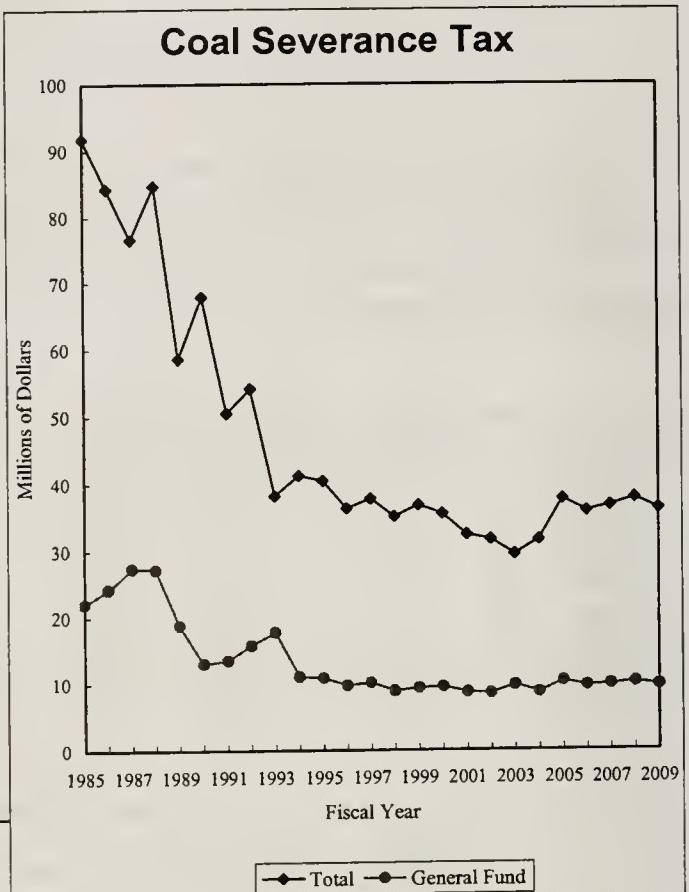
Total Tax = Tons(FY) \* CSP(FY) \* Fiscal Effective

GF Tax = Tons(FY) \* CSP(FY) \* Fiscal Effective \* GF Allocation

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Coal Severance Tax**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	91.748855	22.019726	Not App.
A 1986	84.217223	24.212459	0.099600
A 1987	76.546602	27.394944	0.131400
A 1988	84.638333	27.177382	-0.007900
A 1989	58.565583	18.805414	-0.308000
A 1990	67.870544	13.024366	-0.307400
A 1991	50.457848	13.517663	0.037900
A 1992	54.114107	15.778084	0.167200
A 1993	38.181298	17.744422	0.124600
A 1994	41.200704	11.046468	-0.377500
A 1995	40.416416	10.827741	-0.019800
A 1996	36.260949	9.714308	-0.102800
A 1997	37.740212	10.110603	0.040800
A 1998	35.045243	8.848924	-0.124800
A 1999	36.767488	9.283791	0.049100
A 2000	35.469791	9.502357	0.023500
A 2001	32.337172	8.663128	-0.088300
A 2002	31.614047	8.469404	-0.022400
A 2003	29.423547	9.721540	0.147800
A 2004	31.544681	8.643243	-0.110900
A 2005	37.634511	10.311856	0.193100
A 2006	35.821524	9.596586	-0.069400
F 2007	36.630000	9.813000	0.022600
F 2008	37.752000	10.114000	0.030700
F 2009	36.164000	9.688000	-0.042100



**Data Source(s):** SABHRS, Department of Revenue Coal Tax Returns

**Contacts:** Coal Companies' Financial Personnel

# Legislative Fiscal Division

## Revenue Estimate Profile

### Electrical Energy Tax

**Revenue Description:** The electrical energy license tax is imposed on each person or organization engaged in generating, manufacturing, or producing electrical energy in Montana. This tax is in addition to the wholesale energy transaction tax enacted by the 1999 legislature (HB 174).

#### Statutory Reference:

Tax Rate MCA) – 15-51-101

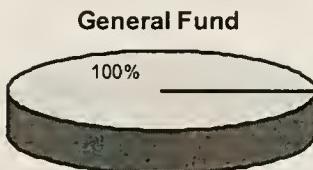
Tax Distribution (MCA) – 15-1-501(1), 15-51-103

Date Due – 30 days after the calendar quarter (15-51-101, 15-51-102)

**Applicable Tax Rate(s):** The tax of \$0.0002 per kilowatt-hour is levied against all electrical energy produced within the state. A deduction is allowed for "actual and necessary" energy use by the plant for the production of the energy.

**Distribution:** All proceeds are deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** Quarterly: The electrical energy tax is due 30 days after the end of the quarter.

#### % of Total General Fund Revenue:

FY 2004 – 0.34%

FY 2005 – 0.27%

FY 2006 – 0.27%

#### Revenue Estimate Methodology:

The electrical energy tax is applied to the number of kilowatt hours of electricity produced. The estimate for the tax revenue is derived by estimating the annual taxable kilowatt hours produced by each company and any company anticipated to be producing within the 3-year period in question. From these production estimates, the tax rate is applied. Since all kilowatt hours produced is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

#### Data

All electrical energy producing companies are surveyed for anticipated kilowatt hours produced, anticipated new production, and anticipated downtime or reduced production. Data from quarterly reports produced by DOR provide a history of kilowatt hours produced for each individual company. Department of Environmental Quality provides a list of pending permits for electrical generation facilities in Montana along with expected dates of operation, type of generation, capacity, and the ones with the most likelihood of coming online in the 2009 biennium.

#### Analysis

1. The taxable kilowatt hours, as reported on the survey and adjusted for any downtime or production reductions, are summed.
2. For those companies who did not respond or did not respond fully to the survey, estimates of production are derived from growth rates based on historical data.

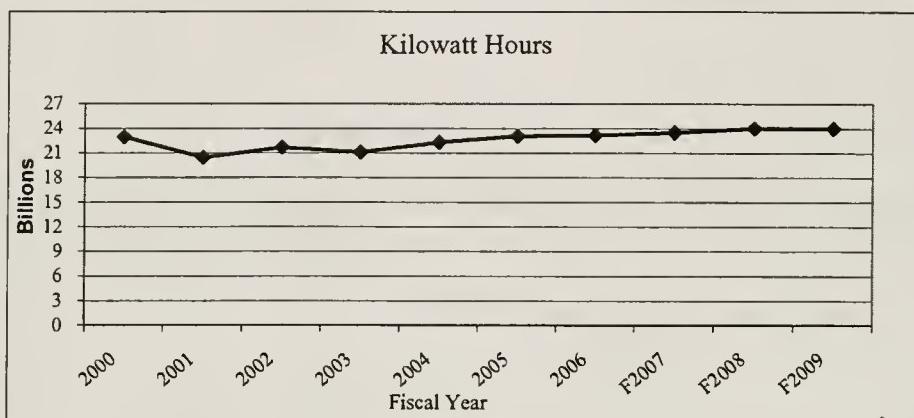
# Legislative Fiscal Division

## Revenue Estimate Profile

### Electrical Energy Tax

3. Since the survey results are reported on a calendar year basis, they are converted to a fiscal year basis by adding half the previous calendar year's estimate to half of the current calendar year's estimate.

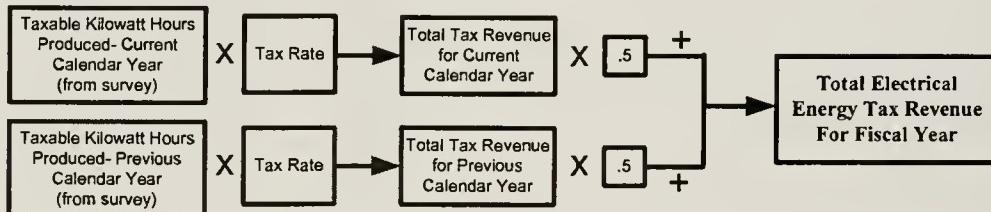
Taxable kilowatt hours are multiplied by the tax rate to derive total revenue from this source.



#### Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

Fiscal	Total Tax Millions	GF Tax Millions	KWH Fiscal Millions	Credits Millions	Tax Rate
Actual	2000	4.829002	4.829002	22937.761931	0.000189
Actual	2001	4.057952	4.057952	20444.170990	0.000000
Actual	2002	4.197477	4.197477	21642.219243	0.000000
Actual	2003	4.130019	4.130019	21068.970125	0.000000
Actual	2004	4.660529	4.660529	22310.179496	0.000000
Actual	2005	4.074409	4.074409	23065.262028	0.000000
Actual	2006	4.644508	4.644508	23156.213077	0.000000
Forecast	2007	4.698000	4.698000	23490.774000	0.000000
Forecast	2008	4.798000	4.798000	23989.247000	0.000000
Forecast	2009	4.797000	4.797000	23981.800000	0.000000

$$\text{Total Tax} = \text{KWH Fiscal} * \text{Tax Rate} - \text{Credits}$$

$$\text{GF Tax} = \text{Total Tax}$$

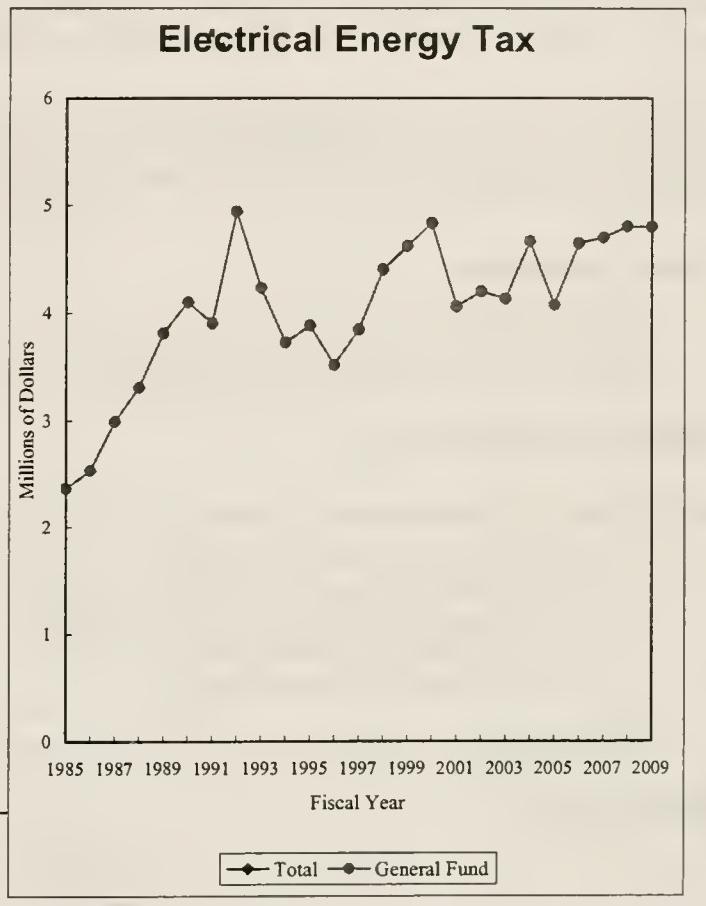
# Legislative Fiscal Division

## Revenue Estimate Profile

### Electrical Energy Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	2.361855	2.361855	Not App.
A 1986	2.530403	2.530403	7.14%
A 1987	2.991861	2.991861	18.24%
A 1988	3.311082	3.311082	10.67%
A 1989	3.815964	3.815964	15.25%
A 1990	4.100543	4.100543	7.46%
A 1991	3.906194	3.906194	-4.74%
A 1992	4.937510	4.937510	26.40%
A 1993	4.232200	4.232200	-14.28%
A 1994	3.728365	3.728365	-11.90%
A 1995	3.885910	3.885910	4.23%
A 1996	3.520407	3.520407	-9.41%
A 1997	3.849052	3.849052	9.34%
A 1998	4.401728	4.401728	14.36%
A 1999	4.618433	4.618433	4.92%
A 2000	4.829002	4.829002	4.56%
A 2001	4.057952	4.057952	-15.97%
A 2002	4.197477	4.197477	3.44%
A 2003	4.130019	4.130019	-1.61%
A 2004	4.660529	4.660529	12.85%
A 2005	4.074409	4.074409	-12.58%
A 2006	4.644508	4.644508	13.99%
F 2007	4.698000	4.698000	1.15%
F 2008	4.798000	4.798000	2.13%
F 2009	4.797000	4.797000	-0.02%



**Data Source(s):** SABHRS, Department of Revenue Electrical Energy Tax Returns

**Contacts:** Electrical Companies' Financial Personnel

# Legislative Fiscal Division

## Revenue Estimate Profile

### Federal Forest Receipts

**Revenue Description:** The federal government authorizes logging operations on forest lands located within the borders of Montana. The sale of timber generates revenue that the federal government shares with the state in the following year. The state receives 25 percent of the federal forest receipts. The state sends the money to the county treasurer of the county in which the receipts were generated. Within thirty days, the county treasurer distributes the money to various county and state accounts.

Beginning November 2000, HR 2389 (federal legislation) fixed the allocation to the state at the average of the highest three years of forest receipts in the state. In subsequent years, the amounts are increased by one-half the rural CPI. No more than 20 percent and no less than 15 percent may be used by county governments for special projects on federal lands. The remainder is distributed under state law as described below.

#### Statutory Reference:

Tax Rate – NA

Tax Distribution MCA) – 17-3-211, 17-3-212

Date Due – the state treasurer distributes the funds within 30 days after receiving full payment

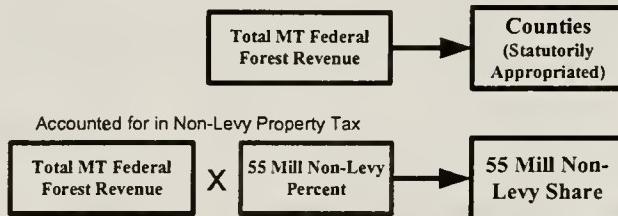
#### Applicable Tax Rate(s): N/A

**Distribution:** The county treasurer apportions federal forest receipts in the following manner:

- 66 2/3% to the general fund of the county
- 33 1/3% to the following county wide accounts, based on the mill ratios of each to total mills in the current year:
  - the county equalization accounts (55 mills)
  - the county transportation account
  - the county retirement accounts

This revenue source represents one component used to calculate total non-levy property tax revenue.

#### Distribution Chart:



**Collection Frequency:** Twice annually (usually October and December).

**% of Total General Fund Revenue:** Non levy is included in "Property Tax: 55 mills".

**Revenue Estimate Methodology:** A number of analytical techniques are used to develop relevant assumptions for this source of revenue. Historical data trends, economic conditions, input from industry experts, company surveys, etc., are examples of information used to formulate these assumptions. The techniques used to develop these assumptions may vary from biennium to biennium and are highly dependent on availability of information, professional intuition/judgment, and a detailed analysis of the revenue source. The applicable assumptions used to develop the revenue estimate for this source are provided in the "Revenue Estimate Assumptions" section of this document. The following summarizes the process used to develop the revenue estimate.

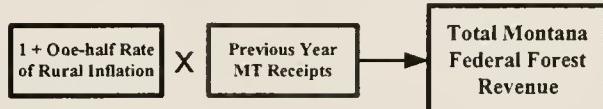
# Legislative Fiscal Division

## Revenue Estimate Profile

### Federal Forest Receipts

With the passage of federal HR 2389 in 2000, the level of forest receipts by the state was fixed at the highest three years of receipts from 1986 through 2000. Beginning in fiscal 2003, the average level of receipts for the prior year will grow at one-half the rate of rural inflation (for cities with less than 50,000 population). The state general fund share is the ratio of 55 mills to the sum of the countywide education accounts in each county in which the timber is harvested and is received by the state as non levy property tax.

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	CPI Percent <u>Change</u>	50% CPI % <u>Change</u>
Actual	2000	6.283122	0.000000	3.3613%	
Actual	2001	7.185037	0.000000	2.7875%	
Actual	2002	13.474861	0.000000	1.6384%	
Actual	2003	12.478757	0.000000	2.2790%	0.8000%
Actual	2004	12.490680	0.000000	2.6630%	1.1395%
Actual	2005	12.431155	0.000000	3.3880%	1.3315%
Actual	2006	12.799829	0.000000	3.2258%	1.6940%
Forecast	2007	13.006000	0.000000	2.1825%	1.6129%
Forecast	2008	13.148000	0.000000	2.0388%	1.0913%
Forecast	2009	13.282000	0.000000	1.7602%	1.0194%

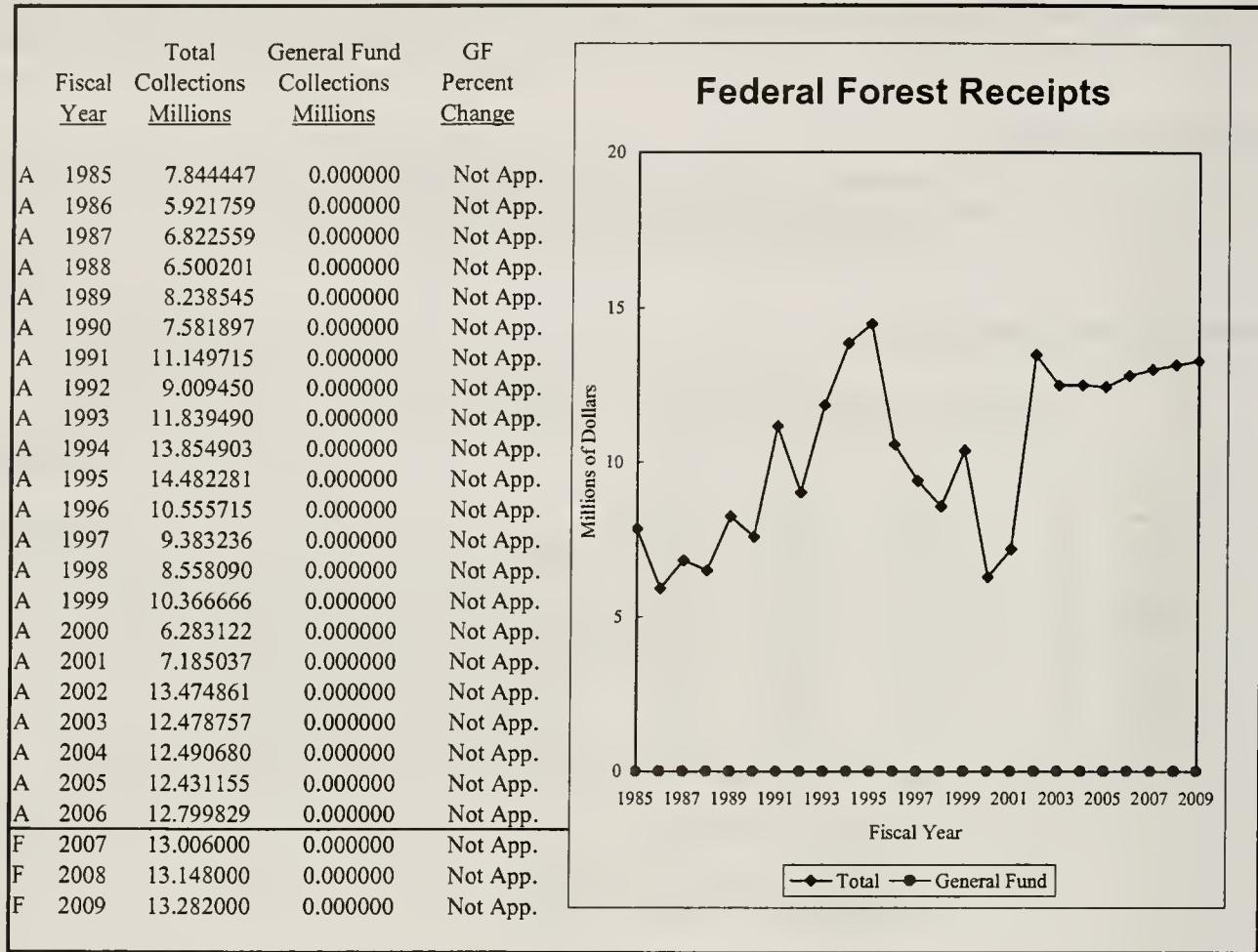
Total Tax = Total Tax Previous Year \* (1+50% CPI %)

# Legislative Fiscal Division

## Revenue Estimate Profile

### Federal Forest Receipts

#### Revenue Projection:



Data Source(s): SABHRS, Department of Labor

Contacts: Montana Department of Labor, Montana Association of Counties

# Legislative Fiscal Division

## Revenue Estimate Profile

### Metalliferous Mines Tax

**Revenue Description:** The metalliferous mines license tax is imposed on the production of metals, gems or stones in the state. The tax rate is applied to the gross value of the product, which is defined as the market value of the commodity multiplied by the quantity produced. Senate Bill 30, enacted in the August 2002 special legislative session, revised the payment of taxes from once to twice a year. The first \$250,000 of value is exempt from taxation. A company taxed at both rates can claim both exemptions.

#### Statutory Reference:

Tax Rate (MCA) – 15-37-103

Tax Distribution (MCA) – 15-37-117

Date Due – August 15<sup>th</sup> for period January through June, March 31<sup>st</sup> for period July through December (15-37-105)

**Applicable Tax Rate(s):** The tax rate for a 6-month period is as follows:

Gross value is defined as monetary amounts or refined metal received for the products less:

1. Basic treatment and refinery charges
2. Transportation costs from the mine to a mill or other processor
3. Quantity and price deductions
4. Interest
5. Penalty metal, impurity and moisture deductions

For concentrates shipped to a smelter, mill, or reduction work:	For gold, silver, or any platinum group metal that is dore*, bullion, or matte* and that is shipped to a refinery:													
<table><tr><th>Gross Value</th><th>Rate</th></tr><tr><td>\$0-\$250,000</td><td>Exempt</td></tr><tr><td>\$250,001 and Above</td><td>1.81%</td></tr></table>	Gross Value	Rate	\$0-\$250,000	Exempt	\$250,001 and Above	1.81%	<table><tr><th>Gross Value</th><th>Rate</th></tr><tr><td>\$0-\$250,000</td><td>Exempt</td></tr><tr><td>\$250,001 and Above</td><td>1.6%</td></tr></table>	Gross Value	Rate	\$0-\$250,000	Exempt	\$250,001 and Above	1.6%	* Dore: A mixture of gold and silver in cast bars Matte: A crude mixture of sulfides formed in smelting sulfide ores of metals
Gross Value	Rate													
\$0-\$250,000	Exempt													
\$250,001 and Above	1.81%													
Gross Value	Rate													
\$0-\$250,000	Exempt													
\$250,001 and Above	1.6%													

**Distribution:** The distribution of the metal mines tax has been altered several times since the 1990s. Prior to the 2005 legislature, the most recent change had been enacted by the 2001 legislature in Senate Bill 484 (effective July 1, 2002) that created a hard-rock mining reclamation debt service fund to pay debt service on the \$8.0 million of bonds authorized for state costs related to hard-rock mining reclamation, operation, and maintenance. The 8.5 percent allocation of metalliferous mines tax revenue previously allocated to the orphan share account was allocated to the hard-rock mining reclamation debt service fund. The 2005 legislature increased the allocation to counties from 24 percent to 25 percent and decreased the general fund allocation from 58 percent to 57 percent. The table below shows recent historical distributions of the tax revenue.

	Distribution of Metalliferous Mines Tax (Percent)					
	Fiscal 1994-1995	Fiscal 1996-1997	Fiscal 1998-2002	Fiscal 2003	Fiscal 2004-2005	Fiscal 2006& Beyond
General Fund	58.0	58.0	58.0	65.0	58.0	57.0
Counties *	25.0	25.0	24.0	24.0	24.0	25.0
Hard Rock Reclamation Debt Service	0.0	0.0	0.0	8.5	8.5	8.5
Reclamation & Development Grants	0.0	4.8	7.0	0.0	7.0	7.0
Hard Rock Mining	1.5	1.5	2.5	2.5	2.5	2.5
RIT Trust	15.5	0.0	0.0	0.0	0.0	0.0
Groundwater Assessment	0.0	2.2	0.0	0.0	0.0	0.0
Abandoned Mines	0.0	8.5	0.0	0.0	0.0	0.0
Orphan Share	0.0	0.0	8.5	0.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0	100.0

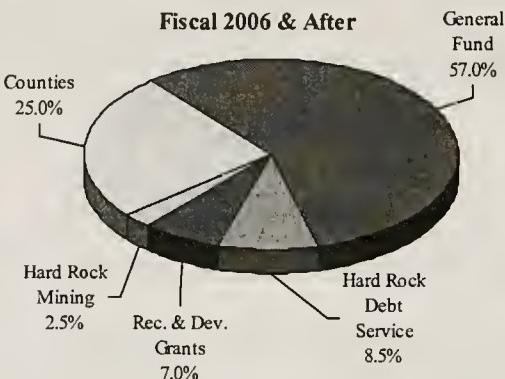
\* Statutorily appropriated

# Legislative Fiscal Division

## Revenue Estimate Profile

### Metalliferous Mines Tax

#### Distribution Chart:



**Collection Frequency:** Biannually

#### % of Total General Fund Revenue:

FY 2004 – 0.23%

FY 2005 – 0.34%

FY 2006 – 0.41%

#### Revenue Estimate Methodology:

The metalliferous mines tax is applied to the taxable gross value of production. The metalliferous mines tax estimate is developed by estimating the annual sales price for each type of metal produced and the anticipated production quantity of each metal by company. From these estimates, taxable gross value can be determined to which an effective tax rate is applied. Since all production and price information is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

#### Data

Mining companies are surveyed for anticipated production levels, general indications of applicable metal prices, and any possible changes in production due to expansion or contraction. Historical and future prices are obtained from various sources depending on the metal. Common sources include COMEX, NYMEX, and KITCO. In addition, a review is performed of historical trends, current literature on metals and metal prices, and companies' 10-Q reports. Data from biannual reports produced by DOR provide a history of production and prices by commodity and taxable gross value for each mining company. These companies are:

- |                     |                   |
|---------------------|-------------------|
| * Golden Sunlight   | * Hallet Minerals |
| * Stillwater Mining | * ORO Management  |
| * Montana Tunnels   | * Genesis         |
| * Montana Resources |                   |

#### Analysis

The taxable value of metals is determined in a four-step process:

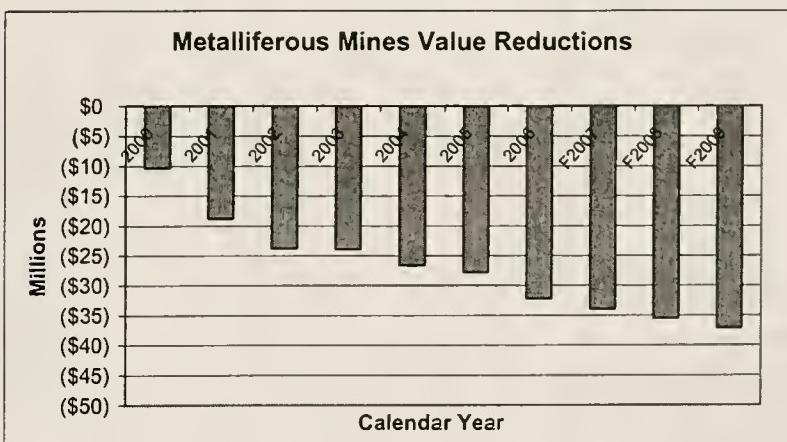
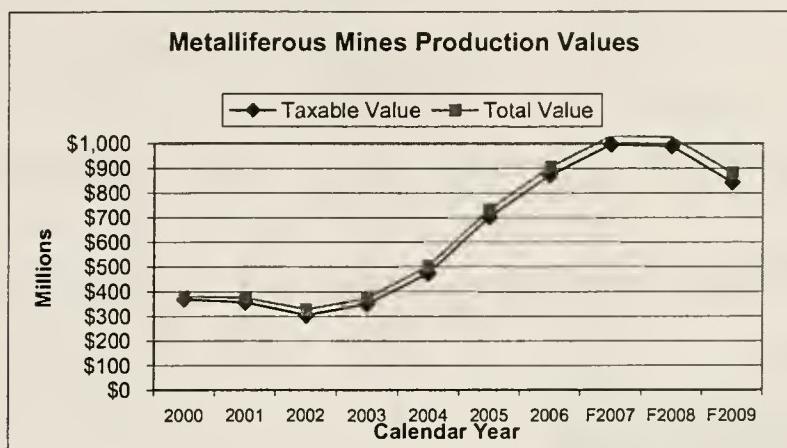
- As reported on the survey, future metals production for each company is summed by commodity. Amounts may be adjusted to fit with historical trends or if major changes are expected from historical production.
- To determine the future price for each metal, a number of different techniques are used depending on the commodity and the reasonableness of future prices based on research of the literature and directions of future markets.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Metalliferous Mines Tax

- Copper, gold, silver, palladium, platinum – the price reported from the most recent half-year report is increased by the percentage growth for that year as shown on the futures market.
- Lead, zinc, rhodium, nickel – the price for the last known calendar year is used for all future years.
- Molybdenum – Market prices reached a peak of \$40 in May 2005. Forecasts by Phelps Dodge indicate a drop in the fourth quarter to around \$24. The estimates use \$22.50 for each year which is the price reported for the first half of calendar 2006.
- The estimated production amount for each metal for all companies is summed and multiplied by the estimated price for that metal. This is done for each metal and the products summed to yield a total gross value.
- Total taxable value is obtained by reducing the total gross value by: a) the tax exempt amount of \$250,000/year for each company; and b) allowable treatment, refinery, transportation, and other costs.

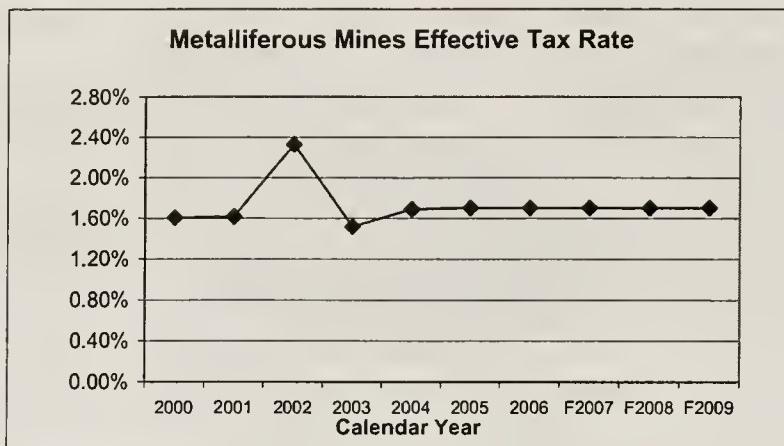


Taxable value is multiplied by an effective tax rate. Since a company's taxable value could be subject to two tax rates – 1.81 percent for concentrates shipped to a smelter, mill or reduction work and 1.6 percent for dore, bullion, or matte that is shipped to a refinery - an effective tax rate is used to capture both these rates. The effective tax rate for FY 2006 was rounded and used for the estimate. The rate is consistent with previous years. The estimate is obtained by multiplying the total taxable value by the effective tax rate.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Metalliferous Mines Tax



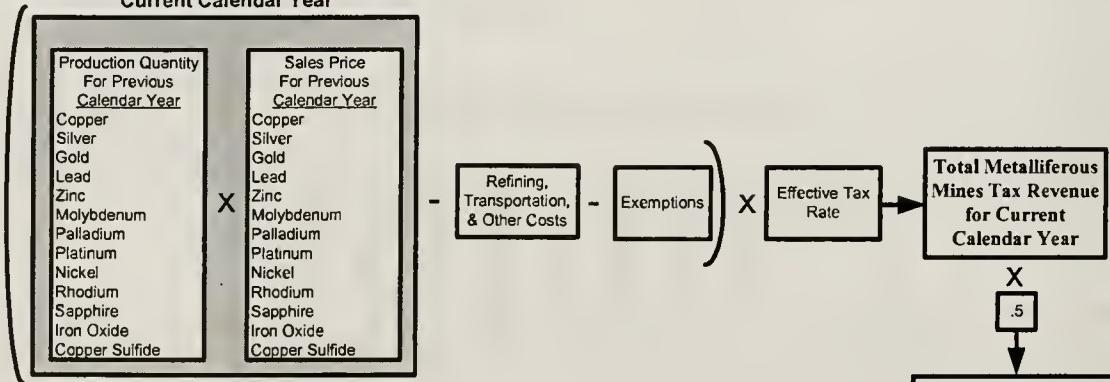
At this point the total represents estimates for calendar years. To convert the estimates to a fiscal year basis, half the previous calendar year's estimate is added to the half of the current calendar year's estimate.

#### Adjustments and Distribution

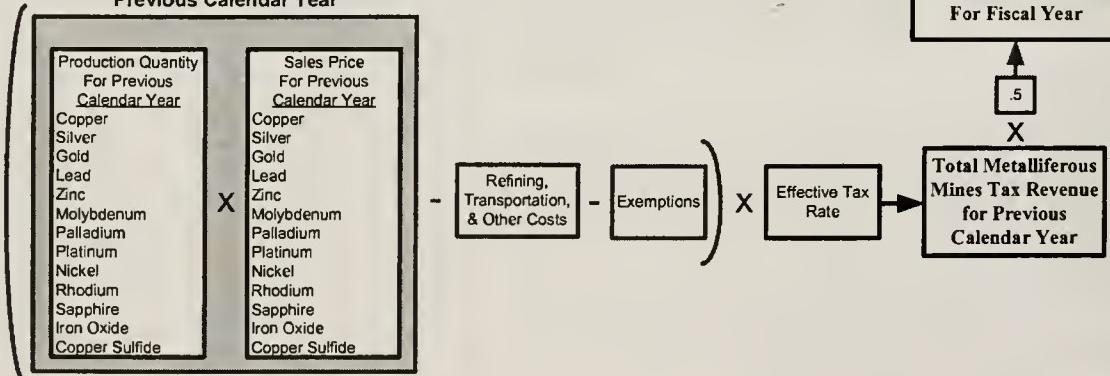
Once total tax revenue for each fiscal year is determined, the applicable distribution percentages are applied.

#### Forecast Methodology:

##### Summed by Each Mining Company for Current Calendar Year



##### Summed by Each Mining Company for Previous Calendar Year



# Legislative Fiscal Division

## Revenue Estimate Profile

### Metalliferous Mines Tax

#### Revenue Estimate Assumptions:

	<u>t</u>	Total Tax <u>Fiscal</u>	GF Tax <u>Millions</u>	Tax Value CY <u>Millions</u>	Effective CY <u>Rate</u>	GF Allocation <u>Percent</u>
Actual	2000	4.661371	2.703031	369.117889		57.9879%
Actual	2001	5.923752	3.417475	355.643466		57.6911%
Actual	2002	5.740242	3.329340	303.045425		58.0000%
Actual	2003	7.055900	4.586335	347.630082		65.0000%
Actual	2004	5.572191	3.231871	472.984838	0.016870	58.0000%
Actual	2005	9.076338	5.264276	702.353328	0.017000	58.0000%
Actual	2006	12.435050	7.028159	871.448620	0.017000	56.5189%
Forecast	2007	15.873000	9.048000	995.985307	0.017000	57.0000%
Forecast	2008	16.865000	9.613000	988.200685	0.017000	57.0000%
Forecast	2009	15.557000	8.867000	842.108620	0.017000	57.0000%

Comdy. <u>Prod.</u>	<u>t</u>	Copper <u>Millions</u>	Silver <u>Millions</u>	Gold <u>Millions</u>	Lead <u>Millions</u>	Zinc <u>Millions</u>	Moly <u>Millions</u>	Palladium <u>Millions</u>
	<u>Cal</u>							
Actual	2000	4.311635	1.579330	0.291116	10.105733	21.461326		
Actual	2001	0.279519	0.867094	0.273483	14.750164	24.383338		
Actual	2002	0.594816	0.431664	0.147947	6.454187	9.594224		
Actual	2003	3.586936	0.422095	0.299258	10.620022	14.550050		
Actual	2004	73.520284	1.431613	0.044652	8.977044	17.050902		
Actual	2005	83.678136	1.970639	0.127334	9.190636	14.296209		
Actual	2006	86.012000	2.175000	0.130000	1.196000	3.084000		
Forecast	2007	94.667000	3.654000	0.274000	17.728000	48.144000		
Forecast	2008	94.754000	3.686000	0.213000	18.764000	54.614000		
Forecast	2009	94.887000	3.022000	0.015000	0.000000	0.000000		

Comdy. <u>Prod.</u>	<u>t</u>	Platinum <u>Millions</u>	Nickel <u>Millions</u>	Rhodium <u>Millions</u>	Sapphire <u>Millions</u>	Copper Sul <u>Millions</u>	Deduction <u>Millions</u>	Refining <u>Millions</u>
	<u>Cal</u>							
Actual	2000		0.000000		0.000000	0.000000		-10.330456
Actual	2001		0.626935		0.000000	0.000000		-18.811518
Actual	2002		1.254207		0.000000	0.000000		-23.786060
Actual	2003		1.378746		0.000000	0.000000		-23.933463
Actual	2004		1.282423		0.000000	0.000000	-1.000000	-26.616285
Actual	2005		1.306813		0.000000	0.000000	-1.000000	-27.774220
Actual	2006		1.738000		0.000000	0.000000	-1.000000	-32.235000
Forecast	2007		1.156000		0.000000	0.000000	-1.000000	-33.959000
Forecast	2008		1.327000		0.000000	0.000000	-1.000000	-35.564000
Forecast	2009		1.452000		0.000000	0.000000	-1.000000	-37.153000

Comdy. <u>Price</u>	<u>t</u>	Copper <u>Dollars</u>	Silver <u>Dollars</u>	Gold <u>Dollars</u>	Lead <u>Dollars</u>	Zinc <u>Dollars</u>	Moly <u>Dollars</u>	Palladium <u>Dollars</u>
	<u>Cal</u>							
Actual	2000	0.646454	4.603820	276.279562	0.200607	0.502159		
Actual	2001	0.624133	4.067554	267.641016	0.217897	0.377707		
Actual	2002	0.644951	3.801359	312.723867	0.201686	0.368474		
Actual	2003	0.463017	5.229937	366.865992	0.280168	0.416065		
Actual	2004	1.038623	6.599440	411.438865	0.433676	0.498697		
Actual	2005	1.492033	7.003997	448.926031	0.448440	0.662373		
Actual	2006	3.000000	11.500000	590.000000	0.450000	0.660000		
Forecast	2007	2.788000	11.951000	623.740000	0.450000	0.660000		
Forecast	2008	2.594000	12.101000	656.496000	0.450000	0.660000		
Forecast	2009	2.622000	12.233000	689.645000	0.450000	0.660000		

# Legislative Fiscal Division

## Revenue Estimate Profile

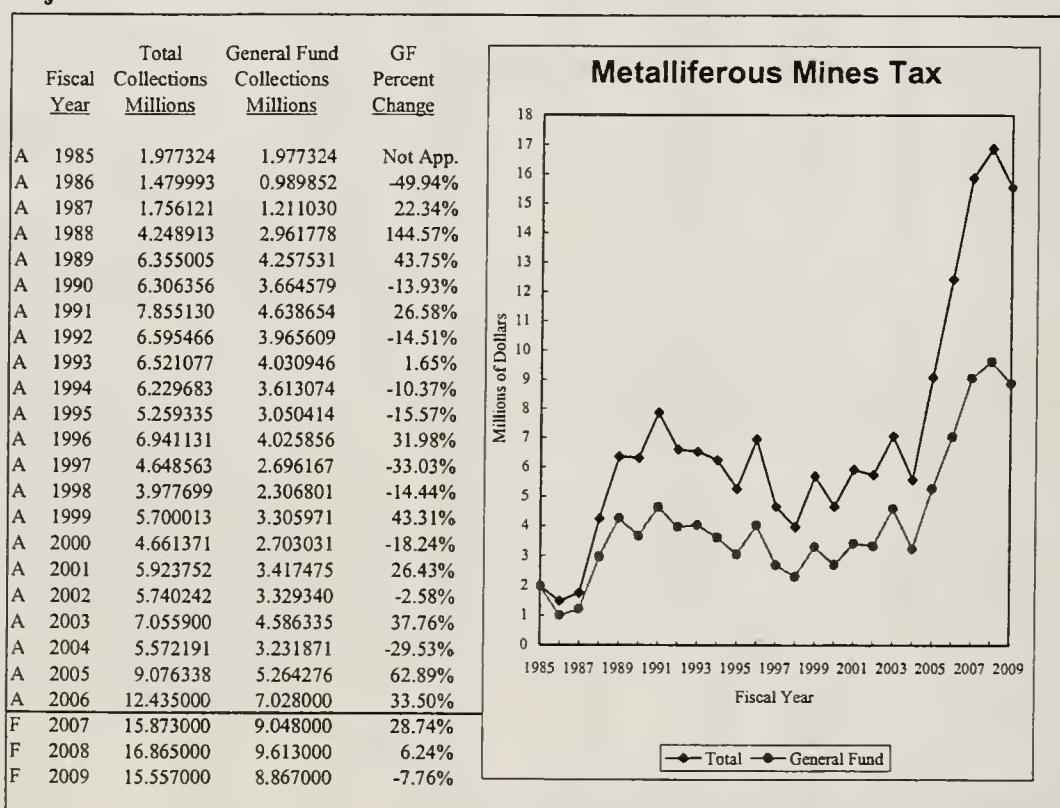
### Metalliferous Mines Tax

Comdty. Price	t <u>Cal</u>	Platinum Dollars	Nickel Dollars	Rhodium Dollars	Sapphire Dollars	Copper Sul Dollars
Actual	2000				0.000000	0.000000
Actual	2001		2.024806		0.000000	0.000000
Actual	2002		2.905846		0.000000	0.000000
Actual	2003		4.101375		0.000000	0.000000
Actual	2004		6.300544		0.000000	0.000000
Actual	2005		5.956539		0.000000	0.000000
Actual	2006		5.960000		0.000000	0.000000
Forecast	2007		5.960000		0.000000	0.000000
Forecast	2008		5.960000		0.000000	0.000000
Forecast	2009		5.960000		0.000000	0.000000

Total Tax = (Copper Prod. \* Copper Price + Silver Prod. \* Silver Price + Gold Prod. \* Gold Price + Lead Prod. \* Lead Price + Zinc Prod. \* Zinc Price + Moly Prod. \* Moly Price + Palladium Prod. \* Palladium Price + Platinum Prod. \* Platinum Price + Nickel Prod. \* Nickel Price + Rodium Prod. \* Rodium Price + Deduction + Refining) \* Effective CY Rate

GF Tax = (Previous Cal. Total Tax + Current Cal. Total Tax) \* .5 \* GF Allocation

### Revenue Projection:



**Data Source(s):** SABHRS, Department of Revenue, *Wall Street Journal*, KITCO, COMEX, NYMEX, company 10K and 10Q reports

**Contacts:** Major Producers

# Legislative Fiscal Division

## Revenue Estimate Profile

### Oil and Natural Gas Production Tax

**Revenue Description:** The oil and natural gas production tax is imposed on the production of petroleum and natural gas in the state. Gross taxable value of oil and natural gas production is based on the type of well and type of production.

#### Statutory Reference:

Tax Rate (MCA) – 15-36-304. Privilege and license tax – 82-11-131, Administrative Rules 36.72.1242

Tax Distribution (MCA) – 15-36-331(4), 15-36-332(2&3) (to taxing units)

Date Due – within 60 days after the end of the calendar quarter (15-36-311(1))

**Applicable Tax Rate(s):** The oil and natural gas production tax has numerous tax rates depending on several factors. These factors include whether the oil or gas is produced from a stripper well, a stripper incentive well, from a well initially drilled before 1999 or after, from a well newly drilled within the last year or 18 months, and whether the interest being taxed is the working interest or the royalty interest. The Board of Oil and Gas Conservation imposes an additional privilege and license (P & L) tax on all oil and natural gas tax rates. Starting October 2006 as set by the Board, the P&L tax rate is 0.09 percent. Based on this rate, HB 758 enacted by the 2005 legislature allows an additional tax rate of 0.17 percent to generate revenue for local impacts for local governments. The two taxes may not exceed 0.3 percent. The following table shows tax rate percentages for each type of pre-1999 oil and post-1999 oil, excluding the P & L tax and the new Local Impact tax. The quarterly tax rates on stripper production and on incremental production are lower than that for regular production unless the price of West Texas Intermediate averages above \$30 for the quarter. Similarly, the quarterly tax rate for stripper well exemption production (1-3 barrels a day) is lower than that for regular production unless the price of West Texas Intermediate averages above \$38 for the quarter.

Oil Tax Rates 15-36-304(5)		
<b>Working Interest</b>		
<b>Primary recovery production</b>		
	First 12 months of qualifying production	0.5%
	After 12 months:	
	pre-1999 wells	12.5%
	post-1999 wells	9.0%
<b>Stripper oil production (&gt;3 and &lt; 15 barrels/day if oil&lt;\$30)</b>		
	1 through 10 barrels a day production	5.5%
	>10 through 14 barrels a day production	9.0%
<b>Stripper oil production (&gt;3 and &lt; 15 barrels/day if oil&gt;=\$30) *</b>		
		0.0%
<b>Stripper wells (3 barrels or less/day)</b>		
	Stripper well exemption production (if oil <\$38)	0.5%
	Stripper well bonus production (if oil >=\$38)	6.0%
<b>Horizontally completed well production</b>		
	First 18 months of qualifying production	0.5%
	After 18 months	
	pre-1999 wells	12.5%
	post-1999 wells	9.0%
<b>Incremental production (if oil &lt;\$30/barrel)</b>		
	New or expanded secondary recovery production	8.5%
	New or expanded tertiary production	5.8%
<b>Incremental production (if oil &gt;=\$30/barrel)</b>		
	Pre-1999 wells	12.5%
	Post-1999 wells	9.0%
<b>Horizontally recompleted well</b>		
	First 18 months	5.5%
	After 18 months	
	pre-1999 wells	12.5%
	post-1999 wells	9.0%
<b>Nonworking Interest</b>		
		14.8%

\* No stripper tax rate. Taxed at primary recovery rates. See 15-36-303(22a)

# Legislative Fiscal Division

## Revenue Estimate Profile

### Oil and Natural Gas Production Tax

Natural Gas Tax Rates 15-36-304(2)			
<u>Working Interest</u>			
<u>Qualified production</u>			
First 12 months			0.5%
After 12 months			
	pre-1999	14.8%	
	post-1999	9.0%	
Stripper natural gas pre-1999 wells		11.0%	
<u>Horizontally completed well production</u>			
First 18 months of qualifying production		0.5%	
After 18 months		9.0%	
<u>Nonworking Interest</u>			
		14.8%	

**Distribution:** Once the oil and natural gas production taxes have been collected, the revenue is first distributed based on the amounts collected from the P & L and Local Impact taxes. The amounts from the P & L tax is distributed to the: 1) Board of Oil and Gas Conservation; and 2) the Legislative Services Division - \$50,000 only in the 2007 biennium. The amounts from the Local Impact tax are distributed to the oil, gas, and coal natural resource state special revenue account. The amounts received by Board and the oil, gas, and coal natural resource account vary based on a sliding tax scale based on the P & L tax set by the Board. Counties producing oil receive the next share of total revenue with each county having its own distribution percentage of total revenue, including the revenue generated by the P & L and Local Impact taxes. The remainder of the revenue is distributed to other state accounts in the following manner:

#### Fiscal 2004 though Fiscal 2011

- Coal bed methane account – 1.23%
- Reclamation and development account – 2.95%
- Orphan share account – 2.95%
- University system 6 mill levy account – 2.65%
- General fund – the remainder (90.22%)

The distributions of county shares and the amount of oil and natural gas production tax revenue deposited in the oil, gas, and coal natural resource account are statutorily appropriated and are based on the statutorily set percentages for each county.

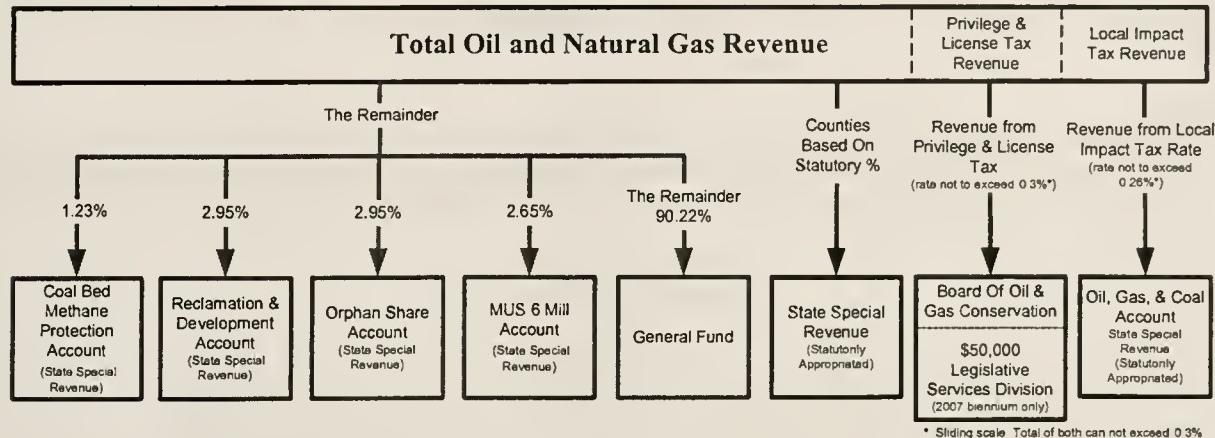
# Legislative Fiscal Division

## Revenue Estimate Profile

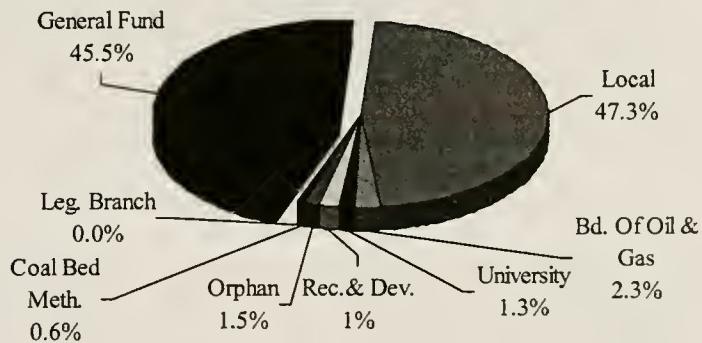
### Oil and Natural Gas Production Tax

#### Distribution Chart:

**Fiscal Years 2006 to 2011**



**Oil & Natural Gas Production  
Based on Fiscal 2006 Actual Amounts**



Because the exact distribution of oil & natural gas revenue will vary depending on various factors, the chart only reflects fiscal 2006 actual distributions. Please see the table above for exact distribution percentages.

**Collection Frequency:** Quarterly: The oil and natural gas production tax is due 60 days after the end of the production quarter.

#### % of Total General Fund Revenue:

- FY 2004 – 2.99%
- FY 2005 – 4.09%
- FY 2006 – 5.42%

#### Revenue Estimate Methodology:

The estimate for oil and natural gas revenue is derived from estimating the production and price from which value can be obtained. Specific statutory tax rates are used for the types of oil and natural gas that are taxed differently.

# Legislative Fiscal Division

## Revenue Estimate Profile

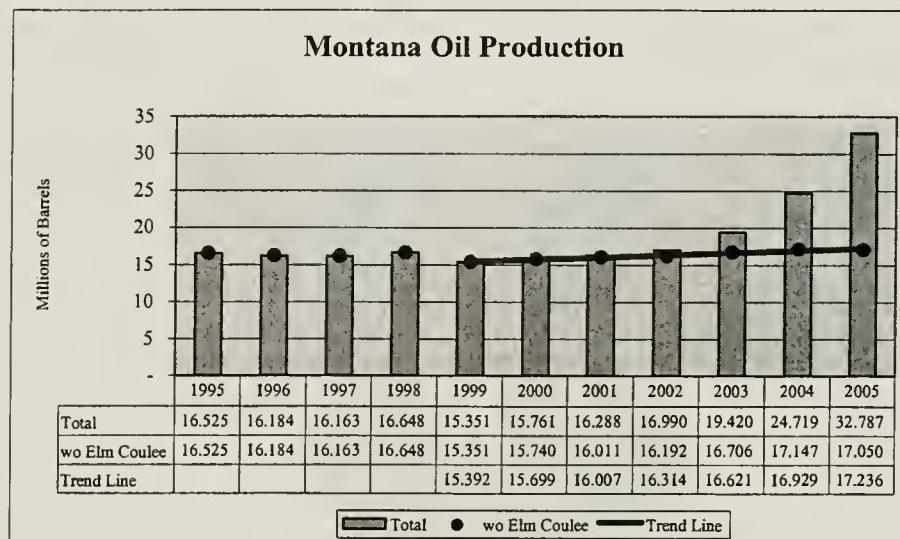
### **Oil and Natural Gas Production Tax**

#### Data

Data from the Board of Oil and Gas Conservation are used extensively to isolate monthly historical production of oil and natural gas by field and by individual well. Global Insight provides future estimates of West Texas Intermediate oil and Henry Hub natural gas prices. Production, price, value, and revenue collections, by oil type, are provided on a quarterly basis by the Department of Revenue.

#### Oil Analysis

- Production - The estimate is developed on a quarterly basis with production from the Elm Coulee field separate from all other production. Analysis of the field data indicate that the majority of the increased production is from the relatively new Elm Coulee field in Richland County. The importance of this one field can be seen in the figure below.



Industry personnel state that this field has yet to be fully defined. When it is, fewer new wells will be spudded (drilling initiated). Existing wells will then follow a production decline curve unique to the characteristics of the field. Fields tapped through horizontal drilling, such as Elm Coulee, tend to be depleted more rapidly than those tapped vertically. Future production from completed wells can be estimated by developing a normalized production decline curve from the producing wells. In doing so, the difficulty of having different starting time for each well can be eliminated by averaging each well's production from a common time point. The result is a curve that represents the average production of wells in the Elm Coulee field by month of production. Production from future wells can be estimated by applying the production curve coefficients to an estimate of future spudded wells. Knowing monthly production from each well and the date it was placed into production are essential for estimating oil tax revenue because tax rates vary based on the length of time a well has been in production. The dynamics in the timing of when wells enter and fall out of the various tax rates and the changes in production at the various stages is complex, but needs to be modeled to ensure accurate estimates.

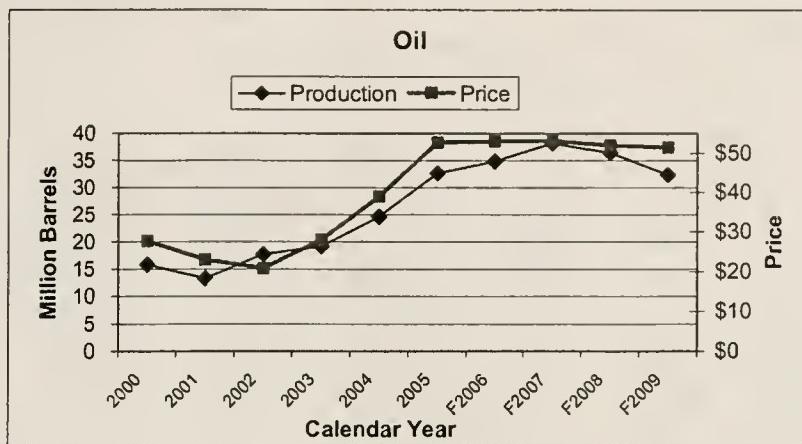
Production from all other fields is also estimated on a quarterly basis and by the different taxation types. For each quarter, the estimate is derived by multiplying the same quarter of the previous year by the ratio of the results of a regression analysis for the same quarter of the current and the previous year. The results for each tax type are then summed and the quarterly results are summed by year.

- Price – The price for each quarter is estimated by adjusting the Global Insight West Texas Intermediate oil price for that quarter by the ratio of a previous quarter's Montana price to the Global Insight price.

# Legislative Fiscal Division

## Revenue Estimate Profile

### **Oil and Natural Gas Production Tax**



Once production and prices have been estimated, the value can be calculated by the product of the two. The quarterly value of each tax type is then multiplied by the applicable tax rate to obtain the estimate. The sum of the revenue from all tax types for each fiscal year determines the oil production revenue estimate.

#### Natural Gas Analysis

- Production - The natural gas industry in Montana has also been undergoing major changes. Improved techniques have allowed new fields to be developed and old fields to be more productive. Data from the Board of Oil and Gas Conservation indicate that the majority of increased production is from the relatively new CX field in Big Horn County and the Elm Coulee field in Richland County. Other fields that exhibit increasing production are the Bowdoin and Cedar Creek fields, the second and third largest producing fields, respectively. Since its peak production in 1999, production from Tiger Ridge, the largest producing field, has declined. By excluding production from fields with increasing production, it was found that production from the remaining fields has been decreasing since 2001. Of the fields with increasing production, most is coming from the CX and Elm Coulee fields. The fact that the CX field has been in production for only seven of the last 20 years, yet ranks sixth in total production out of the major fields that have been producing for the last 20 years, illustrates the importance of this field. A similar analysis to that used for oil can also be used for natural gas from the CX and Elm Coulee fields. As with oil, the development of a normalized production curve from individual wells eliminates the difficulty of having different starting time for each well by averaging each well's production from a common point in time. The result is a curve that represents the average production of wells in the CX and Elm Coulee fields by month of production. With the equation of this curve, future production can be estimated.

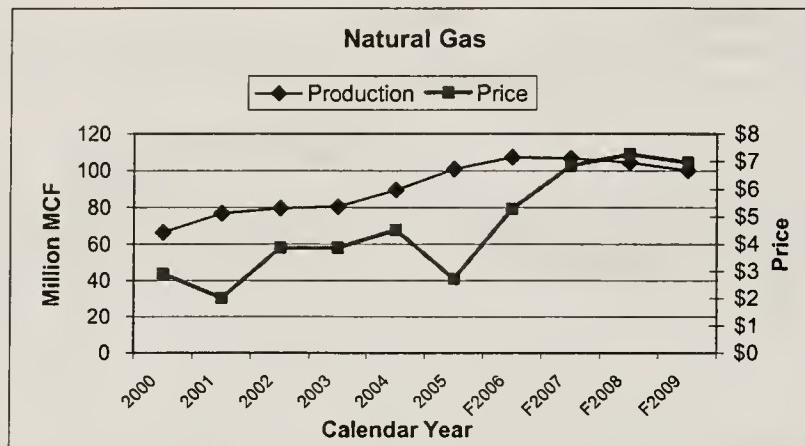
Production from all other fields is also estimated on a quarterly basis and by the different taxation types. For each quarter, the estimate is derived by multiplying the same quarter of the previous year by the ratio of the results of a regression analysis for the same quarter of the current and the previous year. The results for each tax type are then summed and the quarterly results are summed by year.

- Price - A similar method to that used for oil is used to estimate natural gas prices on a quarterly basis and by tax type of production. However, the Global Insight Henry Hub natural gas future prices are used to drive changes in the Montana price.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Oil and Natural Gas Production Tax

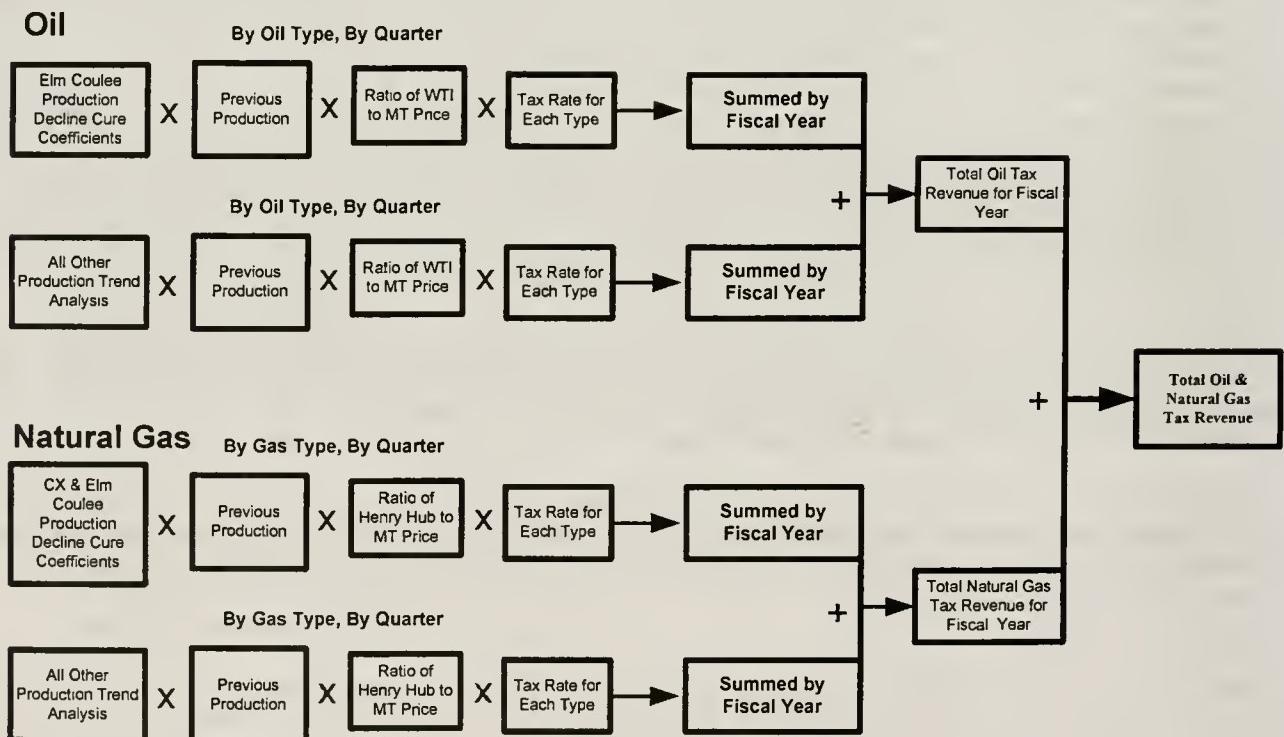


Once production and prices have been estimated, the value can be calculated by the product of the two. The quarterly value of each tax type is then multiplied by the applicable tax rate to obtain the revenue. The sum of the revenue from all tax types for each fiscal year determines the natural gas revenue estimate.

#### Adjustments and Distribution

Once the oil and natural gas estimates have been summed, the distribution formula is applied with the amounts to the Board of Oil and Gas and to local governments distributed first and the remainder subject to statutory percentages.

#### **Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Oil and Natural Gas Production Tax

#### Revenue Estimate Assumptions:

	<u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	GF Allocation <u>Percent</u>	Audits <u>Millions</u>	Total Tax Oil <u>Millions</u>	Total Tax Gas <u>Millions</u>
Actual	2000	43.772950	11.362741	0.259584			
Actual	2001	92.395790	25.791723	0.279144			
Actual	2002	50.303610	12.902439	0.256491			
Actual	2003	73.389376	29.086038	0.396325	2.436178		
Actual	2004	92.676050	41.323718	0.445894	1.687625		
Actual	2005	137.754331	62.625939	0.454620	1.127243		
Actual	2006	203.681078	92.562800	0.454450	1.428545		
Forecast	2007	195.430000	86.240849	0.441288	0.000000	148.911000	46.519000
Forecast	2008	228.334000	101.224485	0.443318	0.000000	166.609000	61.725000
Forecast	2009	228.477000	101.287880	0.443318	0.000000	168.190000	60.287000

<u>Oil</u>	<u>Fiscal</u>	Barrels <u>Millions</u>	Price <u>Per Barrel</u>	Gross Value <u>Millions</u>	Effective <u>Tax Rate</u>
Actual	2000				
Actual	2001				
Actual	2002				
Actual	2003				
Actual	2004				
Actual	2005				
Actual	2006	33.700000	56.569941	1906.407000	0.074541
Forecast	2007	36.588000	51.596562	1887.815000	0.078880
Forecast	2008	38.325000	52.714338	2020.277000	0.082468
Forecast	2009	34.136000	51.654236	1763.269000	0.095385

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Oil and Natural Gas Production Tax**

<u>Gas</u>	<u>t</u>	MCF's	Price	Gross Value	Effective
	Fiscal	Millions	Per MCF	Millions	Tax Rate
Actual	2000				
Actual	2001				
Actual	2002				
Actual	2003				
Actual	2004				
Actual	2005				
Actual	2006	107.934000	6.774964	731.249000	0.078025
Forecast	2007	106.561000	5.560252	592.506000	0.078512
Forecast	2008	106.074000	7.307342	775.119000	0.079633
Forecast	2009	102.366000	7.120392	728.886000	0.082711

<u>Oil</u>	<u>t</u>	Barrels	Price	Gross Value	Effective	Total Tax
	Cal	Millions	Per Barrel	Millions	Tax Rate	Millions
Actual	2000	15.770217	27.674692	436.435898	0.114821	48.291803
Actual	2001	13.275582	22.967563	304.907766	0.102083	35.876151
Actual	2002	17.653122	20.779054	366.815175	0.100083	37.755024
Actual	2003	19.177655	28.025523	537.463811	0.095372	50.001667
Actual	2004	24.559083	38.992068	957.609434	0.090422	76.502684
Actual	2005	32.631373	52.762097	1721.699667	0.084783	122.494911
Actual	2006	34.827000	53.016769	1846.415000	0.076733	141.681000
Forecast	2007	38.159000	53.147960	2028.073000	0.079964	162.173000
Forecast	2008	36.425000	51.978970	1893.334000	0.088286	167.155000
Forecast	2009	32.354000	51.452185	1664.684000	0.100336	167.028000

<u>Gas</u>	<u>t</u>	MCF's	Price	Gross Value	Effective	Total Tax
	Cal	Millions	Per MCF	Millions	Tax Rate	Millions
Actual	2000	66.163277	2.907561	192.373764	0.106032	19.395351
Actual	2001	76.713082	2.017410	154.761739	0.104020	24.266868
Actual	2002	79.531692	3.866558	307.513900	0.104259	17.289646
Actual	2003	80.327001	3.866558	310.589008	0.099219	30.259247
Actual	2004	89.464491	4.516738	404.087668	0.093759	36.881048
Actual	2005	100.744115	2.724589	274.486307	0.090027	23.838515
Actual	2006	107.258000	5.285144	566.873975	0.077324	43.833000
Forecast	2007	106.687000	6.845829	730.360959	0.078914	57.636000
Forecast	2008	104.476000	7.261074	758.607967	0.081008	61.453000
Forecast	2009	99.981000	6.960783	695.946045	0.084728	58.966000

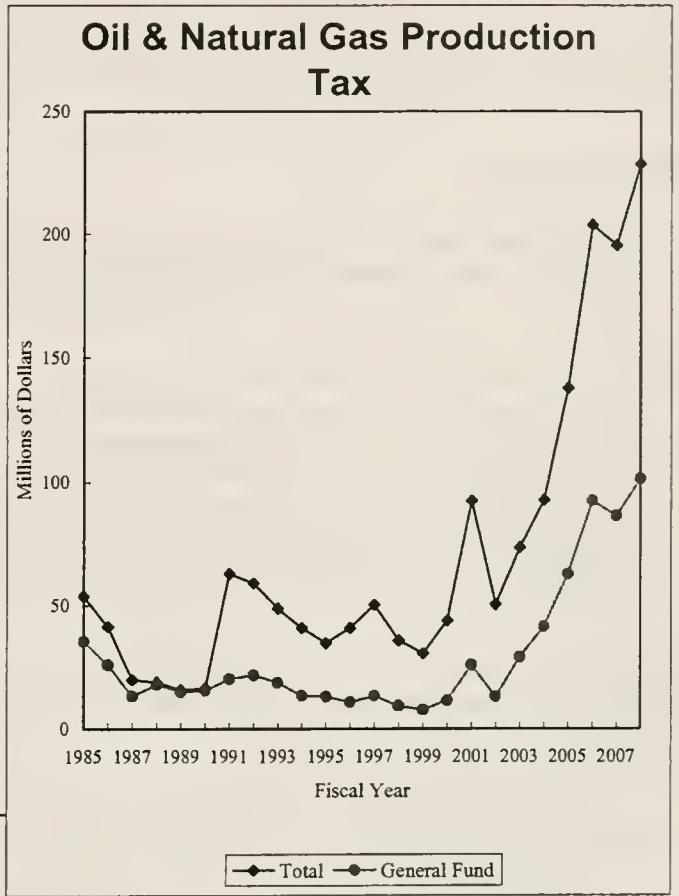
Total Tax = Barrels \* Price \* Tax Rate + MCF's \* Price \* Tax Rate + Audits

GF Rev = Total Tax \* GF Allocation + Audits

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Oil and Natural Gas Production Tax**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	53.667357	35.472434	Not App.
A 1986	41.441086	26.043170	-26.58%
A 1987	19.904239	13.254877	-49.10%
A 1988	18.913097	17.975582	35.61%
A 1989	15.748241	14.959251	-16.78%
A 1990	16.486405	15.567426	4.07%
A 1991	62.879742	20.163269	29.52%
A 1992	58.892324	21.822893	8.23%
A 1993	48.650604	18.676586	-14.42%
A 1994	40.871318	13.403408	-28.23%
A 1995	34.704332	12.963887	-3.28%
A 1996	40.826475	10.665986	-17.73%
A 1997	50.150068	13.283093	24.54%
A 1998	35.709042	9.120152	-31.34%
A 1999	30.446634	7.505617	-17.70%
A 2000	43.772950	11.362741	51.39%
A 2001	92.395790	25.791723	126.99%
A 2002	50.303610	12.902439	-49.97%
A 2003	73.389376	29.086038	125.43%
A 2004	92.676050	41.323718	42.07%
A 2005	137.754331	62.625939	51.55%
A 2006	203.681000	92.563000	47.80%
F 2007	195.430000	86.241000	-6.83%
F 2008	228.334000	101.224000	17.37%
F 2009	228.477000	101.288000	0.06%



**Data Source(s):** SABHRS, Department of Revenue, Global Insight, *Wall Street Journal*

**Contacts:** Department of Revenue, Board of Oil & Gas

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Tax

**Revenue Description:** The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal, as well as most minerals, but not metals, oil, and natural gas. Prior to July 1, 2002 when the Governor by executive order certified to the Secretary of State that the resource indemnity trust balance had reached \$100 million, a portion of oil and natural gas taxes had been distributed under the same methodology as the RIGWA tax. Once the RIT balance reached \$100 million, this portion of oil and natural gas taxes no longer has a connection to the RIGWA tax. The RIGWA tax on all other production is specific to each resource as described below.

#### Statutory Reference:

Tax Rate (MCA) – 15-38-104

Tax Distribution (MCA) – 15-38-106, 39-10-106

Date Due from metal producers – March 31st following the end of the calendar year (15-38-105, 15-38-106(1))

Date Due from mineral producers – 60 days following the end of the calendar year (15-38-105, 15-38-106(1))

**Applicable Tax Rate(s):** The applicable rates are as follows:

Coal: \$25 plus 0.4% of the gross value of coal produced in the preceding year in excess of \$6,250

Minerals: \$25 plus 0.5% of the gross value of minerals (excluding metals and excluding oil and natural gas because the resource indemnity trust has reached \$100 million) produced in the preceding year in excess of \$5,000

Talc: \$25 plus 0.4% of the gross value of talc produced in the preceding year in excess of \$625

Vermiculite: \$25 plus 2.0% of the gross value of vermiculite produced in the preceding year in excess of \$1,250

Limestone: \$25 plus 10.0% of the gross value of limestone produced in the preceding year in excess of \$250

Garnets: \$25 plus 1.0% of the gross value of garnets produced in the preceding year in excess of \$2,500

**Distribution:** Beginning fiscal 2004, the amount needed to cover debt service on CERCLA bonds (after amounts transferred from the CERCLA cost recovery account) is deposited to the CERCLA match debt service account. Through fiscal 2007, the remainder of RIGWA tax proceeds is distributed in the following order:

1. \$366,000 each year to the ground water assessment account
2. 50.0% of the remainder to the reclamation and development grants account
3. the amount needed to maintain a \$150,000 balance in the natural resource worker scholarship account (enacted by the 2001 legislature in Senate Bill 322 and terminates the end of fiscal 2007)
4. the remainder to the orphan share account (terminates the end of fiscal 2007)

After Fiscal 2007, the remainder of RIGWA tax proceeds is distributed in the following order:

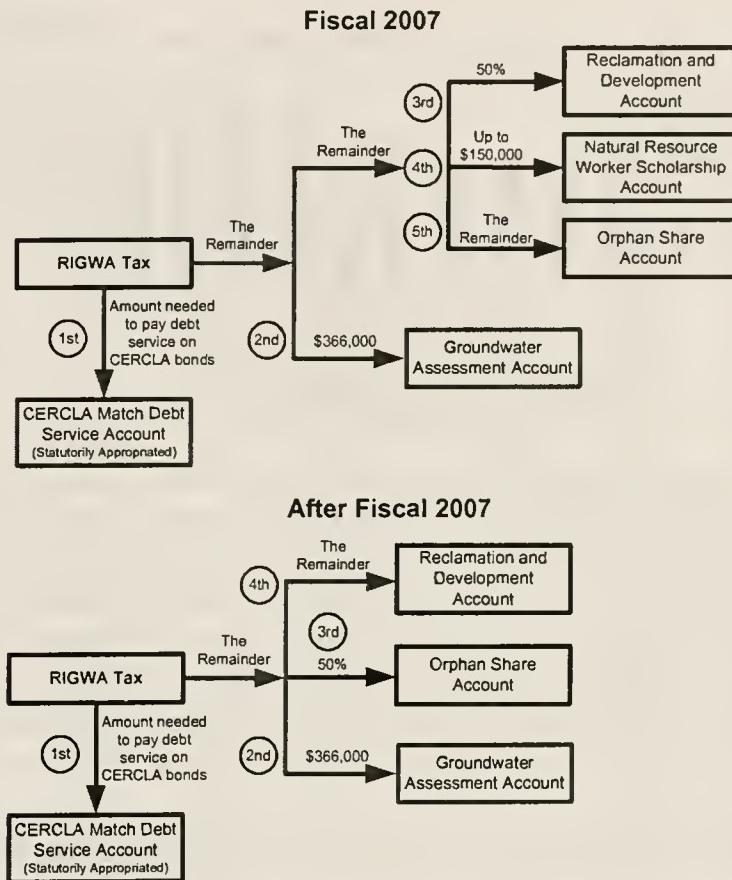
1. \$366,000 each year to the ground water assessment account
2. 50.0% of the remainder to the orphan share account
3. the remainder to the reclamation and development grants account

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Tax

Distribution Chart:



**Collection Frequency:** Annually - the tax is paid on or before March 31 of the year following the production year.

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

Data

The data used to estimate the resource indemnity and groundwater assessment (RIGWA) tax are obtained from the coal severance tax source, the property tax source, and the state accounting system (SABHRS). No adjustments are required on the raw data in preparation for analysis.

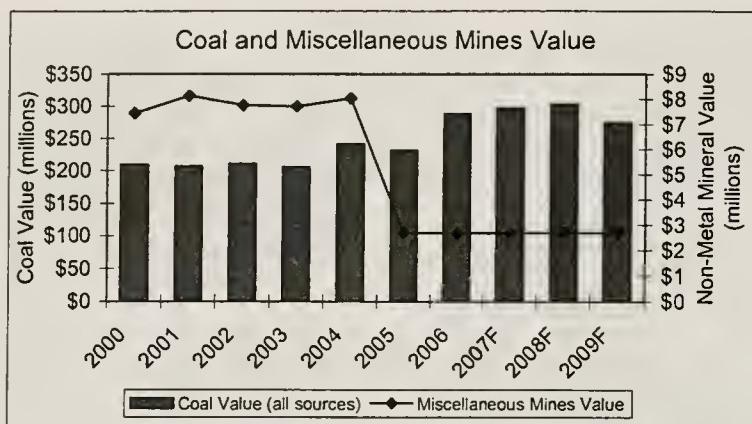
Analysis

The RIGWA tax is imposed on the gross taxable value from the production of coal and miscellaneous mines. Before fiscal 2002, when Governor Martz certified that the resource indemnity trust had reached the required principal amount of \$100 million, oil and natural gas production was also taxed under RIGWA, but the oil and natural gas component of the tax ended when the trust reached the limit. The gross value estimates prepared for the coal severance tax and class 1 property tax (miscellaneous mines) are used in the estimate for the RIGWA tax.

# Legislative Fiscal Division

## Revenue Estimate Profile

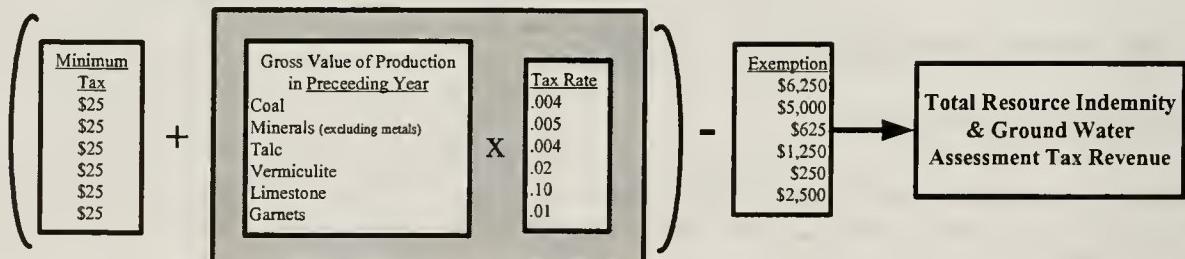
### Resource Indemnity Tax



The future taxable value of coal, produced by all mines, is estimated in the coal severance tax source. As seen in the figure above, the value of coal produced in Montana is expected to increase slightly in fiscal years 2007 and 2008, but is expected to decline in fiscal 2009. The estimate of coal value is \$297.0 million, \$302.9 million, and \$274.6 million in fiscal 2007 through fiscal 2009, respectively. The future taxable value of miscellaneous mine production is estimated in the class 1 property tax. The figure above shows that the value of miscellaneous mine production declined significantly between fiscal years 2004 and 2005. SB 276, approved in the 2005 session and effective in fiscal 2005, eliminated the taxation of bentonite production as class 1 property, causing a shift in the value of miscellaneous mines seen in the figure above. The reduction was the result of the decline in miscellaneous mine production value and is not expected to change over the 2009 biennium. The estimate of the value of miscellaneous mines production is \$2.7 million for each fiscal year. Further information on the estimates for the value of coal and miscellaneous mines production value can be seen in the methodology descriptions of the sources.

To develop the estimates for RIGWA tax collections, the tax rates are applied to the production value of each of the components, coal and miscellaneous mines. Finally the taxes estimated for the two components are summed to produce the total estimate of the RIGWA tax.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Tax

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Oil <u>Millions</u>	Natural Gas <u>Millions</u>	Coal <u>Millions</u>	Metals <u>Millions</u>	Other <u>Millions</u>
Actual	2000	6.793459	0.000000	0.851792	0.159668	1.034506	0.000000	0.288596
Actual	2001	2.744480	0.000000	1.667407	0.000000	0.951681	0.001862	0.123529
Actual	2002	2.200785	0.000000	0.976477	0.000000	0.998816	0.000460	0.225031
Actual	2003	1.225610	0.000000	0.000000	0.000000	1.005490	0.000000	0.220121
Actual	2004	1.250528	0.000000	0.001614	0.000000	0.965537	0.000000	0.284991
Actual	2005	1.436378	0.000000	0.000000	0.000000	1.118400	0.000000	0.317978
Actual	2006	1.456411	0.000000	0.000000	0.000000	1.086862	0.001916	0.367633
Forecast	2007	1.307000	0.000000	0.000000	0.000000	1.171672	0.000000	0.135000
Forecast	2008	1.335000	0.000000	0.000000	0.000000	1.199700	0.000000	0.135000
Forecast	2009	1.290000	0.000000	0.000000	0.000000	1.154994	0.000000	0.135000

	<u>t</u> <u>Fiscal</u>	Trust Other <u>Millions</u>	Trust Metal <u>Millions</u>	Renewable <u>Millions</u>	Ground <u>Millions</u>	Reclamation <u>Millions</u>	Orphan <u>Millions</u>	Trust Balance <u>Millions</u>
Actual	2000	3.391472	0.000000	0.000000	0.521579	1.440204	1.440204	96.404163
Actual	2001	2.205880	0.000000	0.000000	0.300000	0.119300	0.119300	100.373547
Actual	2002	1.588631	0.000000	0.000000	0.300000	0.156077	0.156077	102.065653
Actual	2003	0.000000	0.000000	0.000000	0.366000	0.429805	0.279805	100.000965
Actual	2004	-0.000188	0.000000	0.000000	0.366000	0.442358	0.442358	100.002390
Actual	2005	0.252454	0.000000	0.000000	0.113546	0.535189	0.441681	100.254844
Actual	2006	0.000000	0.000000	0.000000	0.366000	0.451163	0.451162	100.023109
Forecast	2007	0.000000	0.000000	0.000000	0.366000	0.401000	0.401150	100.023109
Forecast	2008	0.000000	0.000000	0.000000	0.366000	0.336422	0.336422	100.023109
Forecast	2009	0.000000	0.000000	0.000000	0.366000	0.140179	0.140180	100.023109

Total Tax = Coal + Other

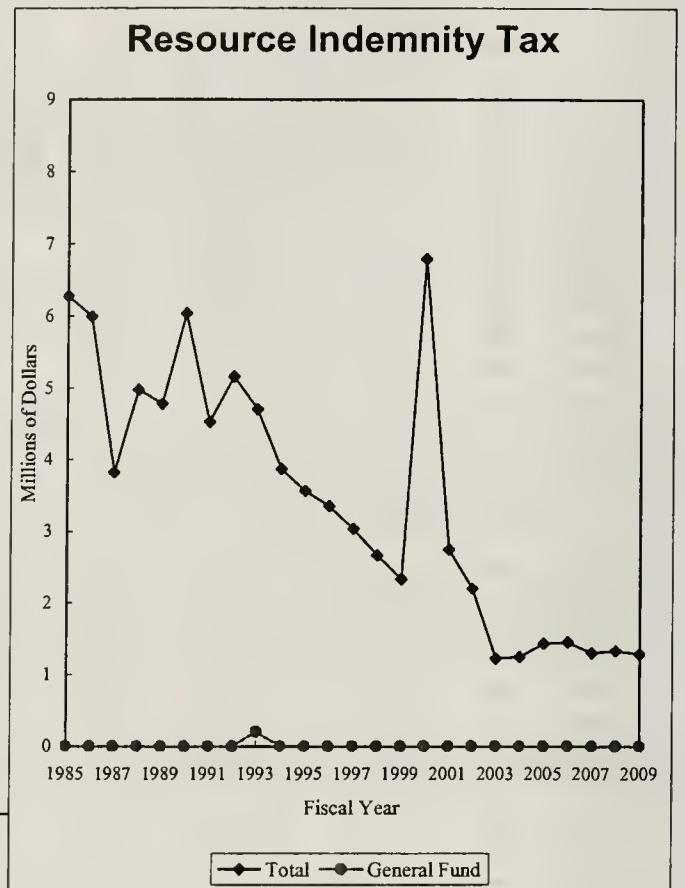
# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	6.278740	0.000000	Not App.
A 1986	5.992270	0.000000	Not App.
A 1987	3.821952	0.000000	Not App.
A 1988	4.979333	0.000000	Not App.
A 1989	4.782041	0.000000	Not App.
A 1990	6.037436	0.000000	Not App.
A 1991	4.527135	0.000000	Not App.
A 1992	5.164977	0.000000	Not App.
A 1993	4.705596	0.204434	Not App.
A 1994	3.867897	0.004206	-97.94%
A 1995	3.561042	0.000078	-98.15%
A 1996	3.351177	0.000000	-100.00%
A 1997	3.036136	0.000000	Not App.
A 1998	2.666933	0.000000	Not App.
A 1999	2.331948	0.000000	Not App.
A 2000	6.793459	0.000000	Not App.
A 2001	2.744480	0.000000	Not App.
A 2002	2.200785	0.000000	Not App.
A 2003	1.225610	0.000000	Not App.
A 2004	1.250528	0.000000	Not App.
A 2005	1.436378	0.000000	Not App.
A 2006	1.456411	0.000000	Not App.
F 2007	1.307000	0.000000	Not App.
F 2008	1.335000	0.000000	Not App.
F 2009	1.290000	0.000000	Not App.



**Data Source(s):** SABHRS, Department of Revenue, Surveys of Various Companies

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### US Mineral Royalty

**Revenue Description:** Under the federal Mineral Lands Leasing Act (30 USC, Section 191), 50.0 percent of all sales, bonuses, royalties, and rentals received from federal lands in Montana must be paid to the state. The money is to be used as the legislature may direct, giving priority to those subdivisions of the state socially or economically impacted by development of minerals leased under the federal act. The revenue produced on federal public lands includes royalties and bonuses from oil, gas, coal, and other mineral exploration and extraction.

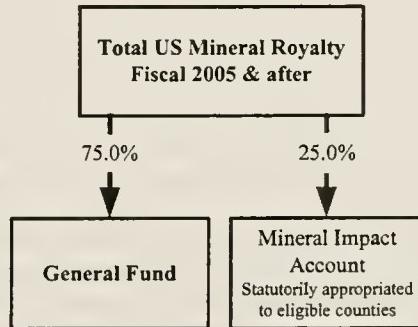
#### Statutory Reference:

Tax Rate – NA  
Distribution – 17-3-240, MCA

#### Applicable Tax Rate(s): N/A

**Distribution:** With the enactment of Senate Bill 212 by the 2005 legislature, receipts are deposited 75 percent to the general fund and 25 percent to the state special revenue mineral impact account. Money in the mineral impact account is statutorily appropriated for distribution to eligible counties in which the minerals were extracted.

#### Distribution Chart:



#### Collection Frequency: Monthly

#### % of Total General Fund Revenue:

FY 2004 – 2.08%  
FY 2005 – 1.78%  
FY 2006 – 1.72%

#### Revenue Estimate Methodology:

The estimate for Montana's share of mineral royalties and other mineral related income from its federal lands is derived from estimating each of the major sources of revenue, applying the applicable royalty rate for each, and multiplying by Montana's share of the revenue.

#### Data

Data from which to base estimates for this revenues source have been sparse and incomplete. Up until October 2001, the Mineral Management Service of the U.S. Department of Interior had provided data used to make the estimate. However, lawsuits and court orders have stifled the flow of data since then. Only recently has yearly data been available for federal fiscal years through 2005. The current estimates rely on this data, future prices of oil and natural gas, and coal production on federal land obtained from a survey of Montana's coal companies.

# Legislative Fiscal Division

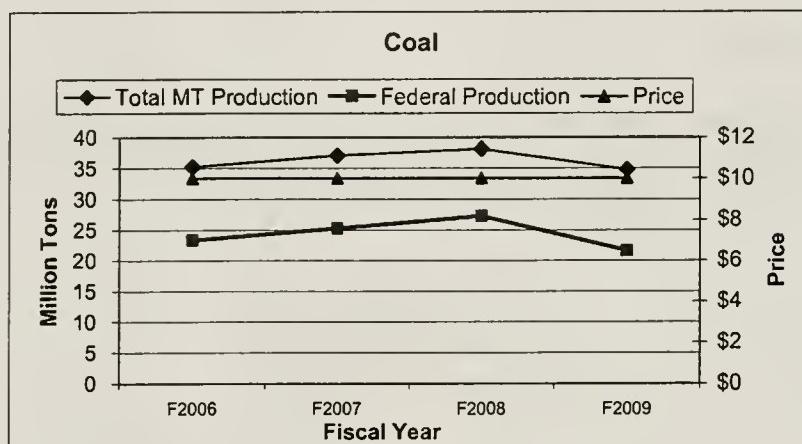
## Revenue Estimate Profile

### US Mineral Royalty

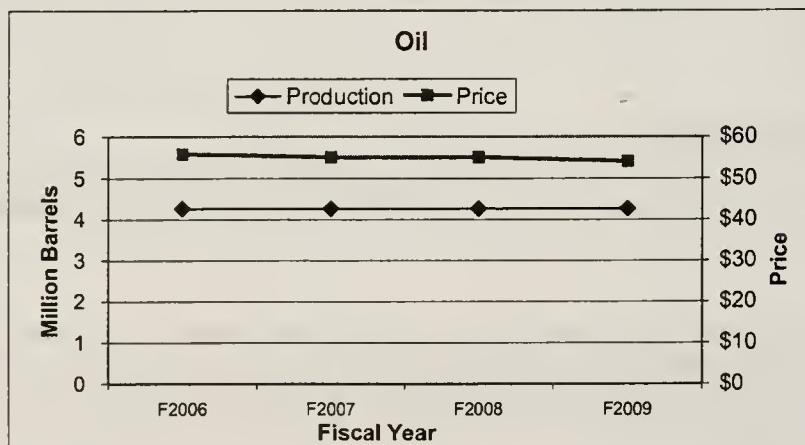
#### Analysis

The estimate is derived by first estimating the individual revenue components. The estimate for mineral royalties is obtained by multiplying estimates for production, price, the applicable royalty rate, and Montana's percentage share together.

- Coal – Calendar year production is estimated by multiplying the production reported by each company on the coal survey by the percent of production each anticipated to be from federal lands. Since no growth in prices was assumed for the coal severance tax revenue source, price is determined by averaging the Montana contract sales price in calendar 2005 for all coal companies and carrying that price into all the estimated years. Production multiplied by price yields value. The value is then multiplied by the royalty rate that is estimated by dividing the calendar year 2005 royalty by the value for that year. This royalty rate is used for all estimated years. Of the total calculated royalty, Montana receives a portion. Although the state portion is 50 percent, actual receipts from calendar year 2005 indicate an actual rate of 49.3 percent. This rate is used for all estimated years.



- Oil - Calendar year production is estimated by carrying the 2005 actual amounts into all of the estimated years since there was almost no growth in production between 2004 and 2005. Yearly prices are determined by first averaging quarterly future prices of West Texas Intermediate oil as forecast by Global Insight, based on the federal fiscal year, for the current and previous year. The current year price is then multiplied by the ratio of the previous year's price to the previous year's estimated (or actual) price. Production multiplied by price yields value. The value is then multiplied by the royalty rate that is estimated by dividing the calendar year 2005 royalty by the value for that year. This royalty rate is used for all estimated years. Of the total calculated royalty, Montana receives a portion. Although the state portion is 50 percent, actual receipts from calendar year 2005 indicate an actual rate of 37.5 percent. This rate is used for all estimated years.

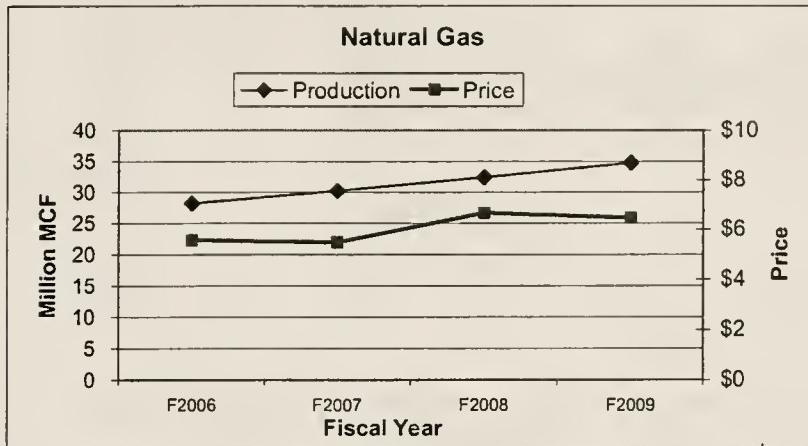


# Legislative Fiscal Division

## Revenue Estimate Profile

### US Mineral Royalty

- Natural Gas – Calendar year production is estimated by multiplying the previous year's production by the growth rate of the two previous years. Yearly prices are determined by first averaging quarterly future prices of Henry Hub natural gas as forecast by Global Insight, based on the federal fiscal year, for the current and previous year. The current year price is then multiplied by the ratio of the previous year's price to the previous year's estimated (or actual) price. Production multiplied by price yields value. The value is then multiplied by the royalty rate that is estimated by dividing the calendar year 2005 royalty by the value for that year. This royalty rate is used for all the estimated years. Of the total calculated royalty, Montana receives a portion. Although the state portion is 50 percent, actual receipts from calendar year 2005 indicate an actual rate of 40.1 percent. This rate is used for all estimated years.



- Natural Gas Liquid - Calendar year production is estimated by carrying the 2005 actual amounts into all of the estimated years. Yearly prices are determined by first averaging quarterly future prices of Henry Hub natural gas as forecast by Global Insight, based on the federal fiscal year, for the current and previous year. The current year price is then multiplied by the ratio of the previous year's price to the previous year's estimated (or actual) price. Production multiplied by price yields value. The value is then multiplied by the royalty rate that is estimated by dividing the calendar year 2005 royalty by the value for that year. This royalty rate is used for all the estimated years. Of the total calculated royalty, Montana receives a portion. Although the state portion is 50 percent, actual receipts from calendar year 2005 indicate an actual rate of 45.8 percent. This rate is used for all estimated years.
- Methane - Calendar year production is estimated by multiplying the previous year's production by the growth rate of the two previous years. Yearly prices are determined by first averaging quarterly future prices of Henry Hub natural gas as forecast by Global Insight, based on the federal fiscal year, for the current and previous year. The current year price is then multiplied by the ratio of the previous year's price to the previous year's estimated (or actual) price. Production multiplied by price yields value. The value is then multiplied by the royalty rate that is estimated by dividing the calendar year 2005 royalty by the value for that year. This royalty rate is used for all the estimated years. Of the total calculated royalty, Montana receives a portion. Although the state portion is 50 percent, actual receipts from calendar year 2005 indicate an actual rate of 44.0 percent. This rate is used for all estimated years.
- Other Royalty – Revenues and royalty rates are estimated by carrying the 2005 actual amounts into all of the estimated years.
- Rents, Bonuses, and Other – The average revenue of calendar 2001 to 2005 with the highest and lowest amounts excluded is carried forward into all of the estimated years. To obtain Montana's share, these amounts are adjusted by the ratio of the last known Montana's amount to the last known total revenue.

#### Adjustments and Distribution

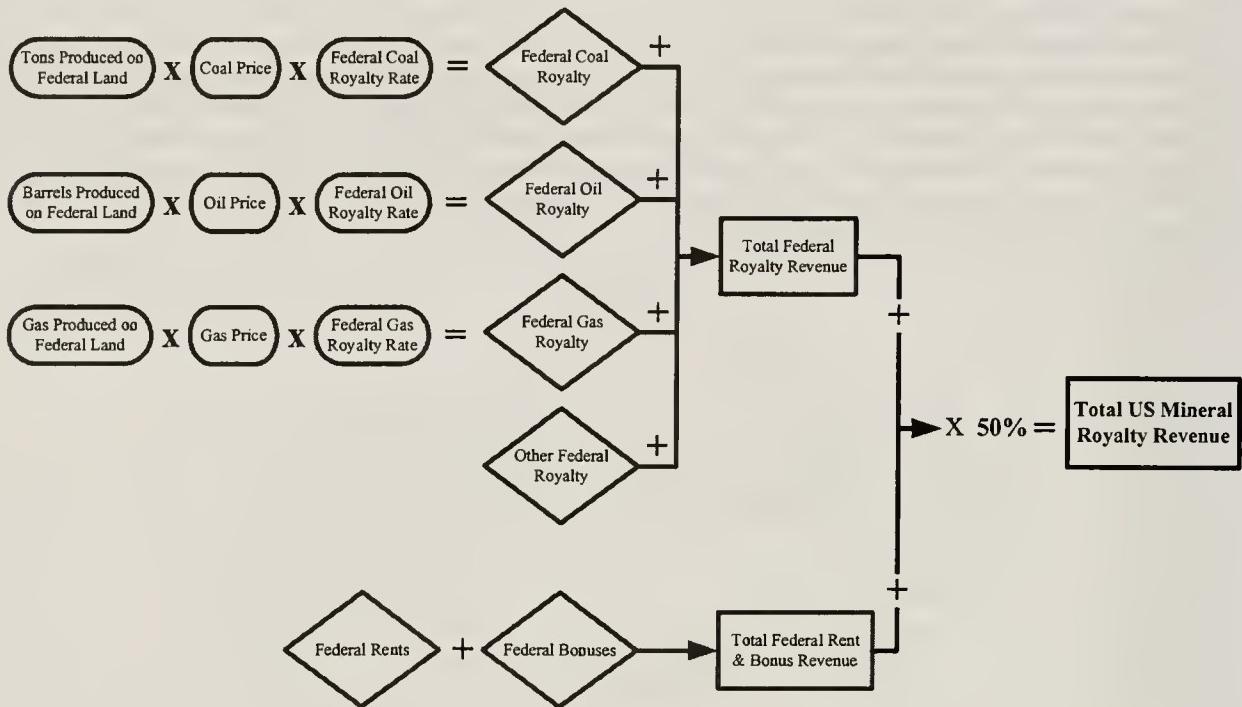
Since the estimates already include the adjustments to determine Montana's share, the estimated revenue is distributed 75 percent to the general fund and 25 percent to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### US Mineral Royalty

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>t</u>	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	One-Time Settlement <u>Millions</u>	Mineral Impact <u>Millions</u>	GF Allocation <u>Percent</u>
	<u>Fiscal</u>					
Actual	2000	19.242954	19.242954			
Actual	2001	31.007874	31.007874	6.038000		
Actual	2002	19.772193	19.772193	0.000000		
Actual	2003	25.989828	25.989828	0.000000		
Actual	2004	28.736303	28.736303	0.000000		
Actual	2005	36.391633	27.293725	0.000000	9.097908	75.00%
Actual	2006	39.071469	29.303602	0.000000	9.767867	75.00%
Forecast	2007	38.240000	28.680000	0.000000	9.560000	75.00%
Forecast	2008	42.258000	31.694000	0.000000	10.565000	75.00%
Forecast	2009	39.200000	29.400000	0.000000	9.800000	75.00%

# Legislative Fiscal Division

## Revenue Estimate Profile

### US Mineral Royalty

	<u>t</u> <u>Cal</u>	<u>Oil Barrels</u>	<u>Coal Tons</u>	<u>Gas MCF's</u>	<u>Oil Price</u>	<u>Coal Price</u>	<u>Gas Price</u>
Actual	2000						
Actual	2001						
Actual	2002	3.862811	33.491273	20.391778	20.655800	8.794516	2.417834
Actual	2003	3.974831	27.206486	23.003369	27.508280	11.709884	3.445458
Actual	2004	4.295711	29.780631	24.537832	31.980751	10.053941	4.355901
Actual	2005	4.255590	27.398404	26.302336	45.324907	10.021523	4.912718
Actual	2006	4.255590	23.358000	28.193725	55.880333	10.021523	5.565376
Forecast	2007	4.255590	25.236000	30.221123	55.086369	10.021523	5.488142
Forecast	2008	4.255590	27.270000	32.394310	55.049593	10.021523	6.654547
Forecast	2009	4.255590	21.604000	34.723770	54.100711	10.021523	6.451032

	<u>t</u> <u>Cal</u>	<u>Oil Roy. Rate</u>	<u>Coal Roy. Rate</u>	<u>Gas Roy. Rate</u>	<u>Oil Revenue</u>	<u>Coal Revenue</u>	<u>Gas Revenue</u>
Actual	2000						
Actual	2001						
Actual	2002	0.113443	0.116053	0.124149	9.051530	34.182163	6.121055
Actual	2003	0.113266	0.117664	0.123688	12.384542	37.485837	9.803198
Actual	2004	0.111631	0.114227	0.120545	15.335865	34.200945	12.884411
Actual	2005	0.114478	0.119807	0.119317	22.080910	32.895894	15.417717
Actual	2006	0.114478	0.119807	0.119317	27.223302	28.044750	18.721873
Forecast	2007	0.114478	0.119807	0.119317	26.836505	30.299568	19.789657
Forecast	2008	0.114478	0.119807	0.119317	26.818589	32.741687	25.721101
Forecast	2009	0.114478	0.119807	0.119317	26.356321	25.938812	26.727503

	<u>t</u> <u>Cal</u>	<u>Other Royalty</u>	<u>Rent&amp;Bonus Revenue</u>	<u>Other Revenue</u>	<u>Total Revenue</u>	<u>State Share</u>	<u>State Share Percent</u>
Actual	2000						
Actual	2001						
Actual	2002	0.680620	3.182765	0.293468	53.511601	22.328620	0.417267
Actual	2003	1.017980	7.105370	1.572410	69.369337	25.535373	0.368107
Actual	2004	0.505445	5.008854	1.800082	69.735602	30.294622	0.434421
Actual	2005	5.023805	4.869587	0.970906	81.258819	35.562306	0.437642
Actual	2006	5.521625	5.169048	0.945595	85.626193	36.774038	0.429472
Forecast	2007	5.664420	5.169048	0.945595	88.704793	38.239549	0.431088
Forecast	2008	6.557726	5.169048	0.945595	97.953746	42.257368	0.431401
Forecast	2009	6.684112	5.169048	0.945595	91.821391	39.199425	0.426910

Total Rev. = (Oil Barrels \* Oil Price \* Oil Roy. Rate + Coal Tons \* Coal Price \* Coal Roy. Rate + Gas MCF's \* Gas Price \* Gas Roy. Rate + Other Royalty + Rent&Bonus Revenue + Other Revenue) \* State Share

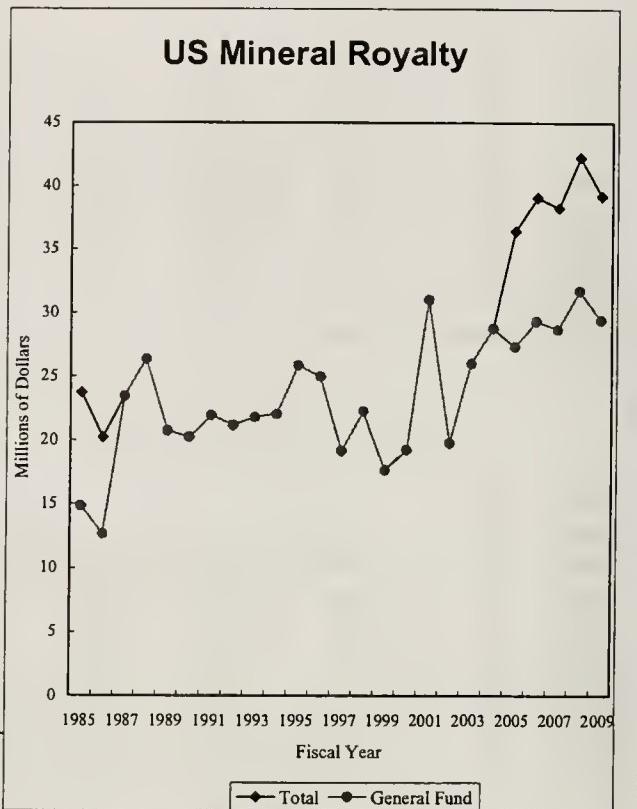
# Legislative Fiscal Division

## Revenue Estimate Profile

### US Mineral Royalty

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	23.708214	14.817634	Not App.
A 1986	20.207422	12.629639	-14.77%
A 1987	23.433021	23.433021	85.54%
A 1988	26.327798	26.327798	12.35%
A 1989	20.727404	20.727404	-21.27%
A 1990	20.240644	20.240644	-2.35%
A 1991	21.928394	21.928394	8.34%
A 1992	21.150278	21.150278	-3.55%
A 1993	21.799728	21.799728	3.07%
A 1994	22.052161	22.052161	1.16%
A 1995	25.847747	25.847747	17.21%
A 1996	24.958952	24.958952	-3.44%
A 1997	19.161163	19.161163	-23.23%
A 1998	22.240950	22.240950	16.07%
A 1999	17.650315	17.650315	-20.64%
A 2000	19.242954	19.242954	9.02%
A 2001	31.007874	31.007874	61.14%
A 2002	19.772193	19.772193	-36.23%
A 2003	25.989828	25.989828	31.45%
A 2004	28.736303	28.736303	10.57%
A 2005	36.391633	27.293725	-5.02%
A 2006	39.071469	29.303602	7.36%
F 2007	38.240000	28.680000	-2.13%
F 2008	42.258000	31.694000	10.51%
F 2009	39.200000	29.400000	-7.24%



**Data Source(s):** SABHRS, Department of Revenue

**Contacts:** U.S. Minerals Management Service

# Legislative Fiscal Division

## Revenue Estimate Profile

### Wholesale Energy Tax

**Revenue Description:** The wholesale energy transaction tax, enacted by the 1999 legislature (HB 174 effective January 1, 2000) is imposed on the amount of electricity transmitted by a transmission services provider in the state.

#### Statutory Reference:

Tax Rate (MCA) – 15-72-104(1)

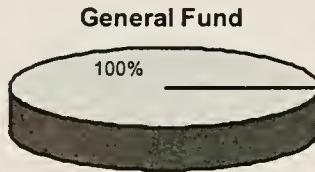
Tax Distribution (MCA) – 15-72-106(3)

Date Due – 30<sup>th</sup> day of the month following the end of the calendar quarter

**Applicable Tax Rate(s):** The tax rate of 0.015 cent is applied to the number of kilowatt hours transmitted. If the electricity is produced in-state and sold out-of-state, the taxpayer is the person(s) owning the electrical generation property, and the tax is collected by the transmission services provider. If the electricity is produced in-state for delivery in-state, or is produced outside the state for delivery in-state, the taxpayer is the distribution services provider, and the tax is collected by the transmission services provider. The tax does not apply to: 1) electricity that is transmitted through the state that is neither produced nor consumed in the state; 2) electricity generated in the state by an agency of the federal government for delivery outside the state; 3) electricity delivered to a distribution services provider that is a municipal utility or a rural electric cooperative which opts out of competition under HB 390 (1997 legislature); 4) electricity delivered to a purchaser that received its power directly from a transmission or distribution facility owned by an entity of the US government; 5) electricity meeting certain contractual requirements that is delivered by a distribution services provider that was first served by a public utility after December 31, 1996; 6) electricity that has been subject to the transmission tax in another state; and 7) a 5 percent line loss exemption for transmission of electricity produced in the state for delivery outside of the state.

**Distribution:** All proceeds are deposited into the general fund.

#### Distribution Chart:



**Collection Frequency:** Quarterly

#### % of Total General Fund Revenue:

FY 2004 – 0.24%

FY 2005 – 0.22%

FY 2006 – 0.22%

#### Revenue Estimate Methodology:

The wholesale energy transaction tax is applied to the number of kilowatt hours transmitted less five percent for line loss on out-of-state transmissions. The estimate for the tax revenue is derived by estimating the annual taxable kilowatt hours transmitted for each company and any company anticipated to be transmitting within the 3-year period in question. From these estimates, the tax rate is applied. Since all kilowatt hours transmitted is reported on a calendar year basis, the resulting calendar year estimates are converted into fiscal year estimates.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Wholesale Energy Tax

#### Data

All energy transmitting companies are surveyed for anticipated kilowatt hours transmitted, anticipated new transmissions, anticipated downtime or reduced transmission, and a percentage split between in-state and out-of-state transmissions. Data from quarterly reports produced by DOR provide a history of in-state and out-of-state kilowatt hours transmitted by each individual company.

#### Analysis

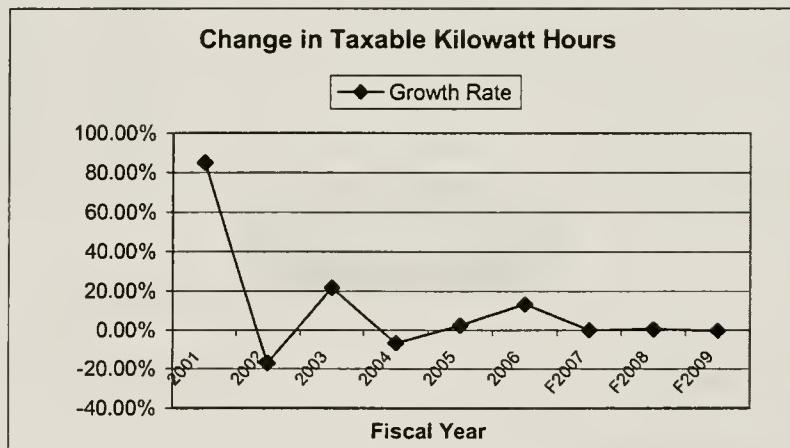
A number of different techniques can be used to develop the revenue estimate for this source. Choosing a technique depends on whether the technique passes the "reasonable" test. The survey technique was used in this analysis.

#### **The Survey Technique**

The taxable kilowatt hours are determined in a three-step process:

- The future kilowatt hours (both instate and out-of-state) for each company, as reported on the survey and adjusted for any downtime or transmission reductions, are summed.
- For those companies who did not respond or did not respond fully to the survey, estimates of production are derived from growth rates based on historical data. Out-of-state transmission amounts were estimated by the ratio of out-of-state amounts to total amounts as reported on the quarterly reports.
- Total amounts for out-of-state transmission are reduced by the exempt line loss amount of five percent.
- Since the survey results are reported on a calendar year basis, they are converted to a fiscal year basis by adding half the previous calendar year's estimate to half of the current calendar year's estimate.

Taxable kilowatt hours are multiplied by the tax rate to derive total revenue from this source.



#### Adjustments and Distribution

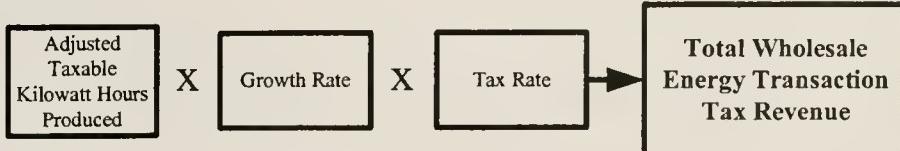
Once total tax revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Wholesale Energy Tax

#### Forecast Methodology



#### Revenue Estimate Assumptions

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	KWH Fiscal <u>Millions</u>	Credits <u>Millions</u>	Tax Rate	Line Loss <u>Millions</u>
Actual	2000	1.894704	1.894704	12273.924051	0.000000	0.000150	
Actual	2001	3.503427	3.503427	22658.110488	0.000000	0.000150	
Actual	2002	2.906263	2.906263	22775.157501	0.000000	0.000150	
Actual	2003	3.532056	3.532056	24780.402486	0.000000	0.000150	
Actual	2004	3.292659	3.292659	23961.126405	0.000000	0.000150	
Actual	2005	3.370263	3.370263	24326.536427	0.000000	0.000150	
Actual	2006	3.813495	3.813495	24870.822230	0.000000	0.000150	799.775000
Forecast	2007	3.814000	3.814000	26225.181000	0.000000	0.000150	799.775000
Forecast	2008	3.827000	3.827000	26314.340000	0.000000	0.000150	799.775000
Forecast	2009	3.811000	3.811000	26202.955000	0.000000	0.000150	799.775000

Total Tax = (KWH Fiscal - Line Loss) \* Tax Rate - Credits

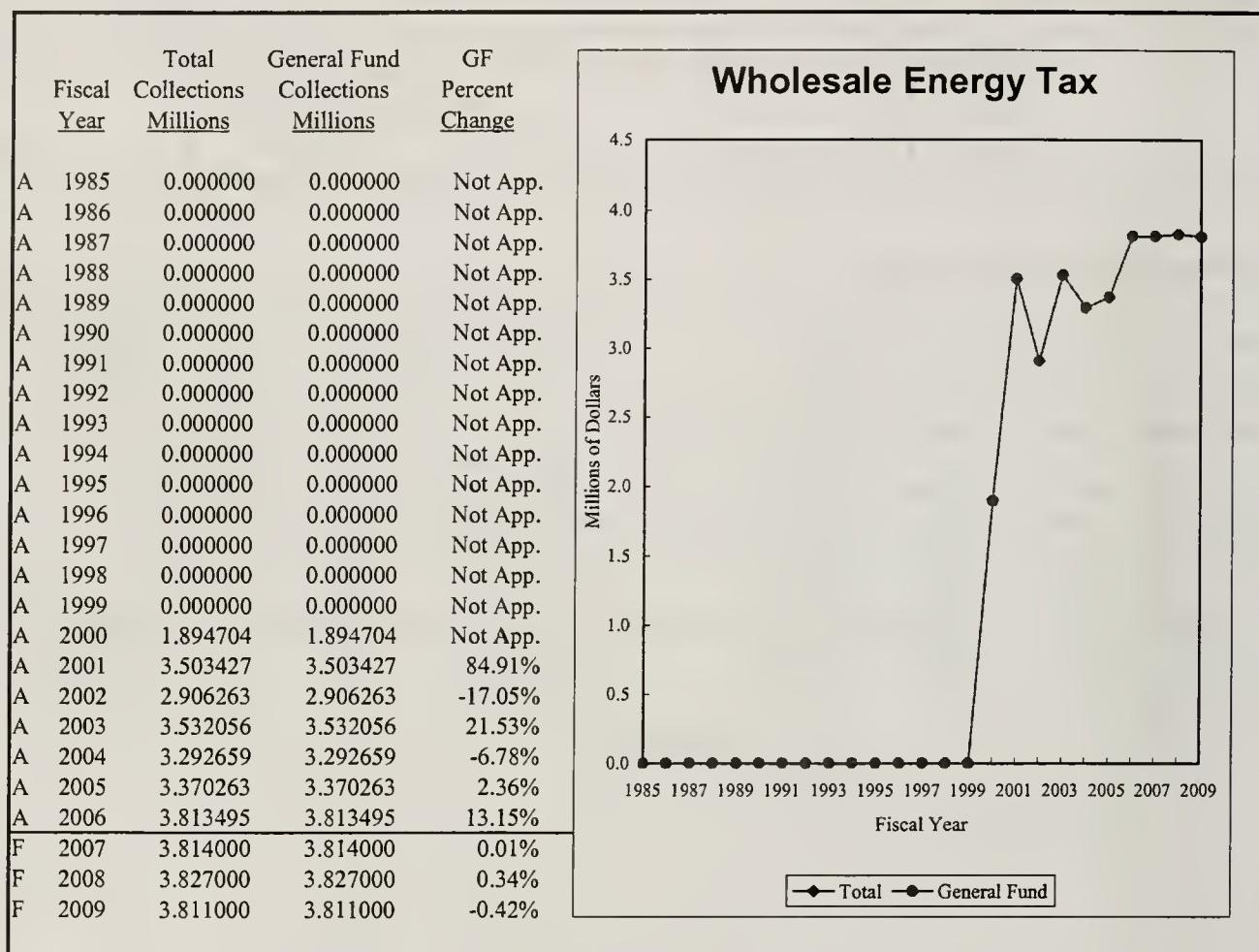
GF Tax = Total Tax

# Legislative Fiscal Division

## Revenue Estimate Profile

### Wholesale Energy Tax

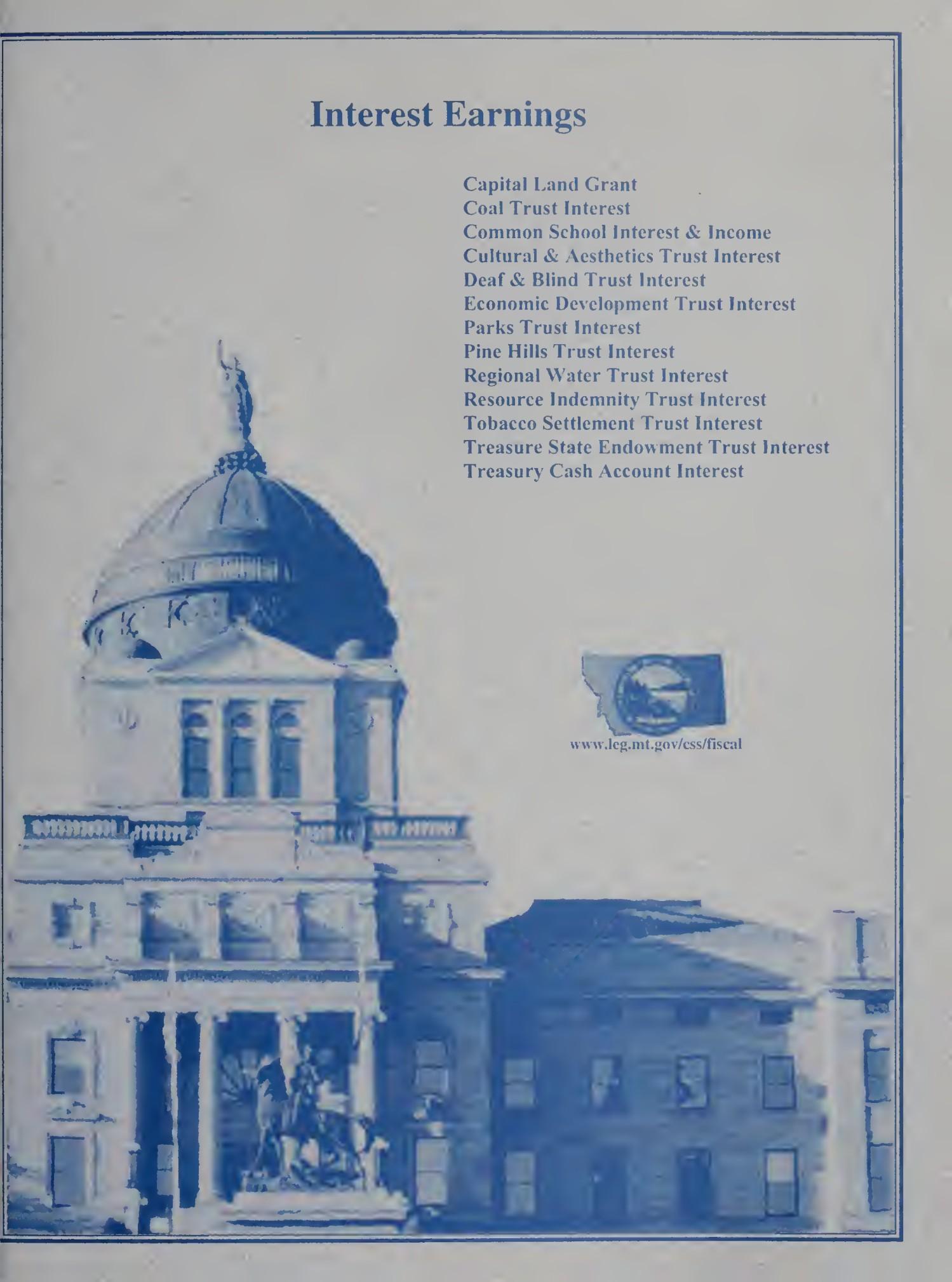
#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Revenue Wholesale Energy Tax Returns, Global Insight, *Wall Street Journal*

**Contacts:** Transmission companies' financial personnel, Department of Revenue

# Interest Earnings



Capital Land Grant  
Coal Trust Interest  
Common School Interest & Income  
Cultural & Aesthetics Trust Interest  
Deaf & Blind Trust Interest  
Economic Development Trust Interest  
Parks Trust Interest  
Pine Hills Trust Interest  
Regional Water Trust Interest  
Resource Indemnity Trust Interest  
Tobacco Settlement Trust Interest  
Treasure State Endowment Trust Interest  
Treasury Cash Account Interest



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

**Revenue Description:** Lands granted by the federal government to the state generate income from a variety of sources. Section 12 of the *Enabling Act* requires that income generated on certain sections of federally granted land be used for public buildings at the state capital for construction, repair, renovation, and other permanent improvements of state buildings. Capital land grant funds can also be used for the acquisition of land for such buildings, as well as the payment of principal and interest on bonds issued for any of these purposes.

Non-permanent sources of revenue generated from capital land grant lands include: grazing fees, agricultural fees, miscellaneous fees and rentals, and oil and natural gas leases and penalties. Statute requires that 3.0 percent of total non-permanent revenue be diverted to the Department of Natural Resources and Conservation (DNRC) for resource development purposes. Senate Bill 48, passed by the 1999 legislature, allows an amount up to 10 percent of the previous year's revenue to be diverted each year to a state special revenue account used to fund the Trust Land Management Division of DNRC. Permanent sources of revenue generated from capital land grant lands include timber sales and oil and natural gas royalties. A portion of timber sale revenue is diverted to DNRC to fund a portion of its timber program based on the amount appropriated by the legislature (the remaining portion is funded with timber sale revenue from the common school and other land trusts that generate timber revenue).

#### **Statutory Reference:**

Tax Rate – NA

Tax Distribution (MCA) – 18-2-107

Other (MCA) – DNRC trust land administration diversion (77-1-109)

DNRC timber sale program diversion (77-1-613)

DNRC land bank administration diversion (77-2-362)

DNRC resource development diversion (77-1-607)

Enabling Act, Sections 10, 12 & 17

#### **Applicable Tax Rate(s):** N/A

**Distribution:** After divisions for DNRC administration, all remaining capital land grant income is deposited into a capital projects fund to be used for projects on the state capital complex in accordance with the provisions of Section 12 of the *Enabling Act*.

#### Distribution Chart:



#### **Collection Frequency:** Monthly

#### **% of Total General Fund Revenue:** N/A

#### **Revenue Estimate Methodology:**

The estimate for interest and income from the capital land grant trust is conducted with the goal of deriving the amount of revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various revenues from the capital land

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

grant trust, estimates of the various diversions that reduce the amount of revenue deposited to the guarantee account must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions. Since all of the trust income is distributed, the trust has no monetary corpus.

#### Data

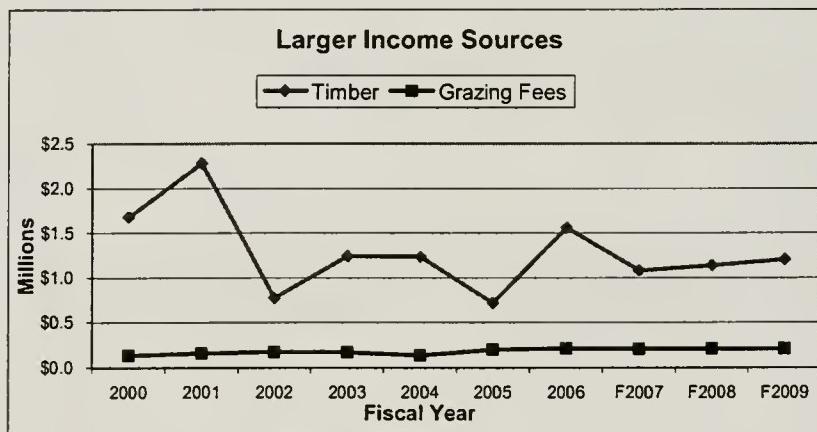
Data from SABHRS provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports provide additional information such as mineral prices and production. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions.

#### Analysis

The estimate is derived by first estimating the revenue components and then estimating the amounts of the diversions.

#### Revenue Components

1. Timber – Estimates of timber harvest from capital land grant trust lands are taken directly from DNRC estimates provided on November 13, 2006 (see the figure below).
2. Grazing Fees – Rates are tied to the price of cattle. With the currently high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium (see the figure below). Based on this information and the cattle futures markets, the estimate for a fiscal year is the average of the previous two years.

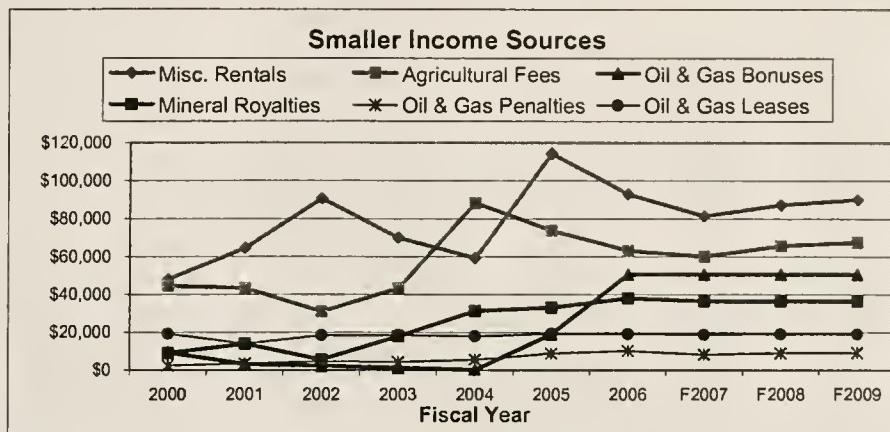


3. Miscellaneous Rentals – These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on the average annual growth rate of the previous four years with the highest and lowest amounts removed.
4. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and historical trends, the estimate for a fiscal year is based on the average annual growth rate of the previous five years with the highest and lowest amounts removed.
5. Oil & Gas Bonuses – With record highs in energy prices, competition to obtain mineral leases has increased, resulting in larger bonus payments. Estimates continue the amount received in FY 2006.
6. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous three years.
7. Mineral Royalties – Mineral royalties are received from oil and natural gas. Oil royalties are estimated by increasing the previous fiscal year's production by the growth rate obtained from average annual growth from for the previous 13 years. For natural gas royalties, estimates continue at the amount received in FY 2006.
8. Oil & Gas Penalties – For each fiscal year estimated, the estimate is the average of the previous three years.

# Legislative Fiscal Division

## Revenue Estimate Profile

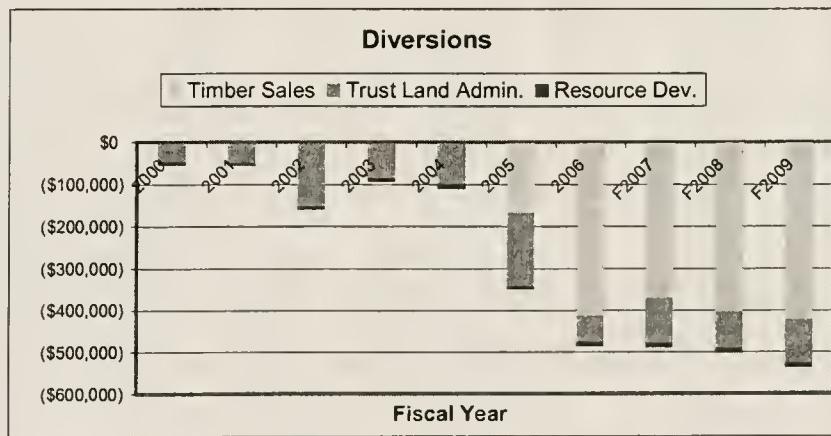
### Capital Land Grant Interest and Income



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used.

1. Trust Land Administration Account – Of the total expenditures requested to be made from this account, a portion is funded by capital land grant trust revenue. That portion is determined by multiplying the previous year's costs by the ratio of the previous year's cost to the revenue from two years previous. In FY 2006, the capital land grant trust funded 15.2 percent of total expenditures.
2. Timber Sales Account – A portion of timber sale revenue from the capital land grant trust is used to fund costs associated with the timber sale program on the trust lands. Other trusts with timber revenue also pay into this account. The portion each pays is the ratio of its timber sale revenue to the total state-wide timber sale revenue multiplied by the total cost of the program.
3. Resource Development Account – Three percent of all income from the trust is diverted to an account to fund resource development on the trust lands. Mineral royalties are excluded.



#### Adjustments and Distribution

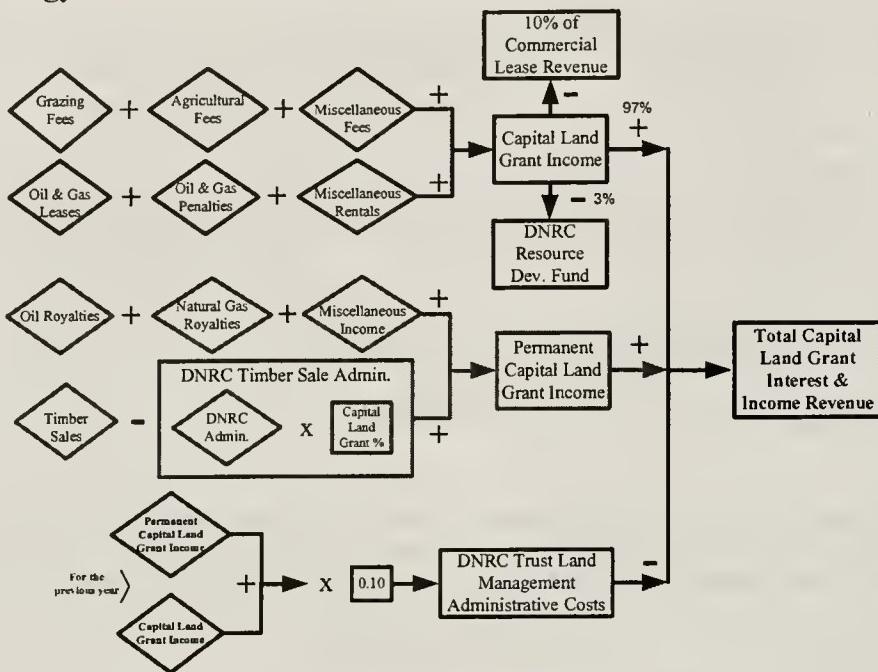
Once total revenue and total diversions have been estimated, the net amounts are distributed 100 percent to the capital project fund.

# **Legislative Fiscal Division**

## Revenue Estimate Profile

### **Capital Land Grant Interest and Income**

#### **Forecast Methodology:**



#### **Revenue Estimate Assumptions:**

		Total Rev.	GF Rev.	TFBP	STIP	Capital
	Fiscal	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	Land Share T&L
Actual	2000	1.920809	0.000000			0.000000
Actual	2001	2.527118	0.000000			0.000000
Actual	2002	1.065036	0.000000	29.627056	0.102664	0.000000
Actual	2003	0.808807	0.000000	29.146744	0.068370	0.000000
Actual	2004	1.976678	0.000000	30.087011	0.053502	0.000000
Actual	2005	0.853171	0.000000	28.106281	0.269698	0.000000
Actual	2006	1.589963	0.000000	24.428206	0.408162	0.000000
Forecast	2007	1.072000	0.000000	23.781663	0.363942	0.000000
Forecast	2008	1.157000	0.000000	24.148202	0.225490	0.000000
Forecast	2009	1.217000	0.000000	24.280867	0.225102	0.000000

		Trust Income New Deposit <u>Fiscal</u>	Trust Land Admin. <u>Millions</u>	New Deposit Long Term <u>Rate</u>	Non Pool STIP <u>Rate</u>	Non Pool STIP Bal <u>Millions</u>
Actual	2000	10.969295		7.0160%	5.4290%	11.676486
Actual	2001	12.667780	-0.048140	6.8850%	4.7390%	6.984553
Actual	2002	2.348339	-0.151480	6.3380%	2.5650%	7.334239
Actual	2003	2.363355	-0.085162	5.7290%	1.3600%	6.242273
Actual	2004	2.971526	-0.098964	5.3650%	1.2650%	7.049634
Actual	2005	1.457756	-0.172683	5.1950%	2.3890%	12.106697
Actual	2006	1.425106	-0.062659	5.2480%	4.0720%	3.862666
Forecast	2007	6.537106	-0.107876	5.4970%	4.6690%	3.862666
Forecast	2008	1.425106	-0.081070	5.7460%	4.5980%	3.862666
Forecast	2009	1.425106	-0.084814	5.9680%	4.5570%	3.862666

# Legislative Fiscal Division

## Revenue Estimate Profile

### Capital Land Grant Interest and Income

	<u>t</u> <u>Fiscal</u>	Grazing <u>Millions</u>	Agriculture <u>Millions</u>	Misc. <u>Millions</u>	O&G Lease <u>Millions</u>	O&G Bonus <u>Millions</u>	O&G Penalty <u>Millions</u>	Misc. <u>Millions</u>
Actual	2000	0.132580	0.044452	0.000000	0.019153	0.009104	0.002343	0.048046
Actual	2001	0.159924	0.043153	0.000000	0.013722	0.002980	0.003287	0.064391
Actual	2002	0.173945	0.030825	0.000000	0.018286	0.002180	0.004428	0.090509
Actual	2003	0.170050	0.043195	0.000000	0.018497	0.001020	0.004170	0.069849
Actual	2004	0.132298	0.08177	0.000000	0.017818	0.000000	0.005399	0.059222
Actual	2005	0.197466	0.073605	0.000000	0.019107	0.018820	0.008633	0.114164
Actual	2006	0.210403	0.063134	0.000000	0.019001	0.050616	0.010166	0.092845
Forecast	2007	0.203935	0.059978	0.000000	0.018642	0.050616	0.008066	0.081347
Forecast	2008	0.207169	0.065572	0.000000	0.018917	0.050616	0.008955	0.087096
Forecast	2009	0.205552	0.067437	0.000000	0.018853	0.050616	0.009062	0.089971

	<u>t</u> <u>Fiscal</u>	Int. Land <u>Millions</u>	Int. STIP <u>Millions</u>	Int. Trust <u>Millions</u>	Res. Dev. <u>Millions</u>	Lease Total <u>Millions</u>	Timber Cost <u>Millions</u>
Actual	2000	0.000000	0.000000	0.000000	-0.007670	0.248008	
Actual	2001	0.000000	0.000000	0.000000	-0.008268	0.279189	
Actual	2002	0.000000	0.000000	0.000000	-0.008838	0.311335	
Actual	2003	0.000000	0.000000	0.000000	-0.009311	0.297470	0.000000
Actual	2004	0.000000	0.000000	0.000000	-0.012622	0.290292	0.000000
Actual	2005	0.000000	0.000000	0.000000	-0.009255	0.422540	-0.168516
Actual	2006	0.000000	0.000000	0.000000	-0.012793	0.433372	-0.412499
Forecast	2007	0.000000	0.000000	0.000000	-0.012678	0.409906	-0.369449
Forecast	2008	0.000000	0.000000	0.000000	-0.013150	0.425175	-0.382916
Forecast	2009	0.000000	0.000000	0.000000	-0.013245	0.428246	-0.389291

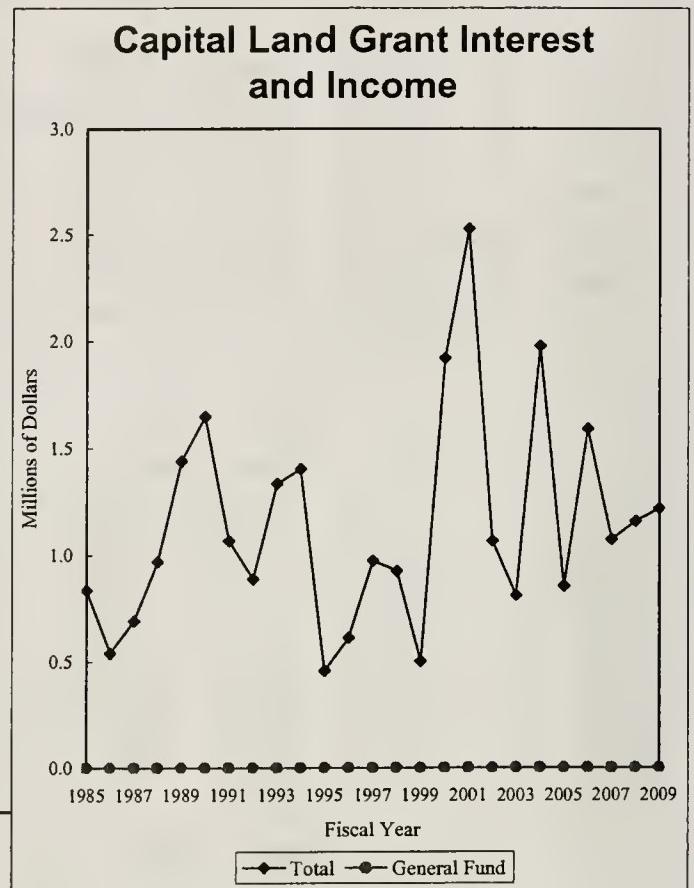
	<u>t</u> <u>Fiscal</u>	Oil Roy. <u>Millions</u>	Gas Roy. <u>Millions</u>	Timber <u>Millions</u>	Misc. <u>Millions</u>	Perm. Total <u>Millions</u>
Actual	2000	0.004394	0.004489	1.675671	0.028247	1.712801
Actual	2001	0.005659	0.008068	2.278363	0.010894	2.302984
Actual	2002	0.003264	0.002190	0.769197	0.005891	0.780542
Actual	2003	0.004461	0.013330	1.238901	0.023329	1.280021
Actual	2004	0.003492	0.027817	1.231369	0.846964	2.109642
Actual	2005	0.005271	0.027867	0.712329	0.030226	0.607177
Actual	2006	0.005020	0.033062	1.558251	0.036352	1.220186
Forecast	2007	0.003280	0.033062	1.080000	0.023350	0.770243
Forecast	2008	0.003455	0.033062	1.135000	0.024586	0.813187
Forecast	2009	0.003538	0.033062	1.200000	0.026286	0.873595

Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. +  
 Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + Oil Roy. + Gas Roy. + Timber + Misc. +  
 Timber Cost + Trust Land Admin.

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Capital Land Grant Interest and Income**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.835304	0.000000	Not App.
A 1986	0.539899	0.000000	Not App.
A 1987	0.690287	0.000000	Not App.
A 1988	0.967858	0.000000	Not App.
A 1989	1.440037	0.000000	Not App.
A 1990	1.648885	0.000000	Not App.
A 1991	1.066001	0.000000	Not App.
A 1992	0.886821	0.000000	Not App.
A 1993	1.334933	0.000000	Not App.
A 1994	1.403414	0.000000	Not App.
A 1995	0.456415	0.000000	Not App.
A 1996	0.610531	0.000000	Not App.
A 1997	0.971616	0.000000	Not App.
A 1998	0.923234	0.000000	Not App.
A 1999	0.500461	0.000000	Not App.
A 2000	1.920809	0.000000	Not App.
A 2001	2.527118	0.000000	Not App.
A 2002	1.065036	0.000000	Not App.
A 2003	0.808807	0.000000	Not App.
A 2004	1.976678	0.000000	Not App.
A 2005	0.853171	0.000000	Not App.
A 2006	1.589963	0.000000	Not App.
F 2007	1.072000	0.000000	Not App.
F 2008	1.157000	0.000000	Not App.
F 2009	1.217000	0.000000	Not App.



**Data Source(s):** SABHRS, *Wall Street Journal*, Department of Natural Resources and Conservation

**Contacts:** Department of Administration, Department of Natural Resources and Conservation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

**Revenue Description:** Article IX, Section 5 of the Montana Constitution requires that 50.0 percent of all coal severance tax revenue be deposited in a permanent coal trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house". Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. With the enactment of House Bill 249 by the 2005 legislature, beginning fiscal 2006 the remaining funds are then split 50 percent (25 percent of total revenue) to the treasure state endowment trust fund, 25 percent (12.5 percent of total revenue) to the treasure state endowment regional water system trust fund, and 25 percent (12.5 percent of total revenue) to the big sky economic development trust fund. The permanent trust fund no longer receives coal severance tax revenue. By statute, interest earned on the permanent trust that is not earmarked to other programs is deposited to the general fund. When calculating interest earnings, the impact of loans made from the trust, such as the in-state investment program, are taken into account.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created trust fund bond pool (TFBP). The majority of permanent coal tax trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's short-term investment pool (STIP). In addition, state law provides that trust funds may be used for in-state commercial loans to stimulate economic development. The state Constitution prohibits the investment of the permanent trust in common stock.

#### Statutory Reference:

Tax Rate - NA

Distribution (MCA) - Montana Constitution, Article IX, Section 5; 17-5-704; 15-35-108

Date Due - NA

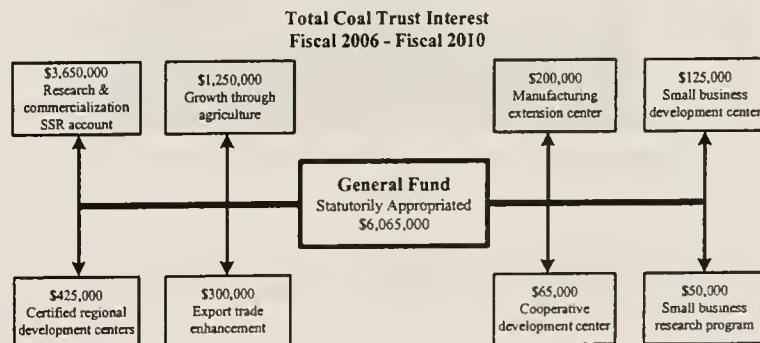
#### Applicable Tax Rate(s): N/A

**Distribution:** Interest earned on the permanent coal tax trust fund is deposited into the general fund. Statute further annually statutorily appropriates interest income from \$140 million of the coal severance tax permanent fund as follows:

#### Fiscal 2006 - 2010

\$3,650,000 – to the research and commercialization state special revenue account
\$1,250,000 – for the growth through agriculture program
\$425,000 – to the Department of Commerce for certified regional development corporations
\$300,000 – to the Department of Commerce for export trade enhancement
\$200,000 – to the Department of Commerce for the Montana manufacturing extension center at MSU-Bozeman
\$125,000 – to the Department of Commerce for a small business development center
\$65,000 – to the Cooperative Development Center
<u>\$50,000</u> – to the Department of Commerce for a small business innovative research program
\$6,065,000

#### Distribution Chart:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 2.53%

FY 2005 – 2.40%

FY 2006 – 1.82%

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the coal trust are obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

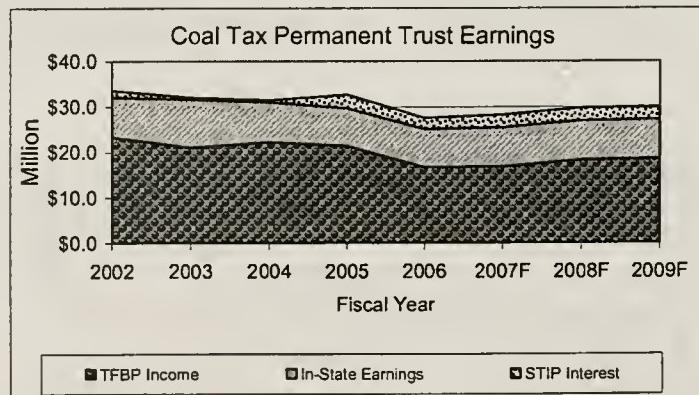
##### Analysis

The coal trust was created from distributions of the coal severance tax. While the Constitution requires that 50 percent of the coal severance tax collections be distributed into the coal trust, in early the 1990's the first sub-trust was created and two more were subsequently formed. Currently, the required coal tax revenue flows into the three sub-trusts and none of the tax revenue is deposited into the permanent coal trust. The principal or corpus of the coal trust (the portion that generates general fund interest) now stands at \$542.8 million.

To forecast the coal trust interest earnings, four interest/income components are estimated independently and summed. The interest/income components include:

- Trust funds bond pool (TFBP)
- In-state investments
- Short-term investment pool (STIP)
- Payback interest

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Coal trust earnings from TFBP interest are expected to be \$16.8 million in fiscal 2007, \$18.4 million in fiscal 2008, and \$18.6 million in fiscal 2009.



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

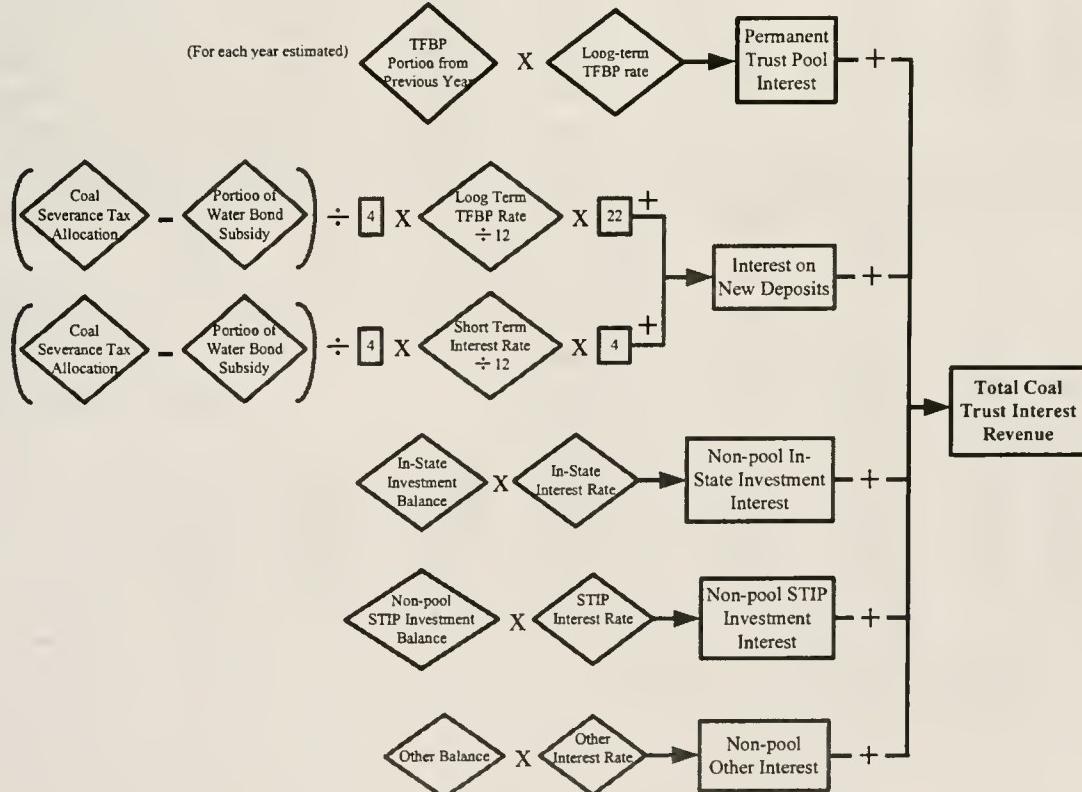
As seen in the figure above, earnings from in-state investments are the second largest source of income to the coal tax trust. The BOI is required by statute to invest twenty-five percent of the coal tax trust in the Montana economy. Investments must be made to maximize the long-term benefit to the Montana economy. In-state investments primarily consist of loans to Montana business entities and earnings are equal to the interest charged on the loans. The in-state balance of \$160.8 million and rate of return of 5.4 percent are held constant throughout the biennium because no new flow of revenue is expected. This yields an in-state earnings estimate of \$8.6 million for each fiscal year.

STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$2.81 million, \$2.78 million, and \$2.76 million for fiscal years 2007 through 2009, respectively.

Payback interest earnings result from a loan of \$46.4 million to the common school trust fund, approved in SB 495 during the 2003 session. Interest on the loan is required to equal the rate of return generated by the TFBP. Additional income is derived from payment of the loan principal. Principal repayments may be temporarily placed into STIP and earn interest until invested in the TFBP. Loan interest paid into the trust declines as the outstanding principal is repaid. Earnings on loan principal payments are projected by applying the TFBP long-term interest rate to the principal payments. The total earnings are expected to be \$1.7 million in fiscal 2007, \$0.42 million in fiscal 2008, and \$0 in fiscal 2009.

When the estimates are combined, the interest and earnings of the coal trust are expected to be \$29.96 million in fiscal 2007, \$29.93 million in fiscal 2008, and \$29.95 million in fiscal 2009.

### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	TFBP Interest <u>Millions</u>	In_State Interest <u>Millions</u>	Other Interest <u>Millions</u>	STIP Interest <u>Millions</u>	Payback Interest <u>Millions</u>
Actual	2000	39.195203	39.195203					
Actual	2001	37.659527	37.659527					
Actual	2002	37.605247	37.605247	23.317933	8.764717	0.401582	1.096936	3.369611
Actual	2003	36.297863	36.297863	21.079491	10.501432	0.027838	0.388276	3.306650
Actual	2004	34.907273	34.907273	22.273639	8.721596	0.055237	0.451386	3.405415
Actual	2005	36.751940	36.751940	21.418762	8.231060	2.309776	0.691339	3.005668
Actual	2006	31.106170	31.106170	16.717821	8.337924	0.345783	2.116771	2.255822
Forecast	2007	29.959000	29.959000	16.790797	8.609325	0.345783	2.468552	1.744862
Forecast	2008	29.927000	29.927000	18.120058	8.609325	0.345783	2.431023	0.421208
Forecast	2009	29.945000	29.945000	18.580843	8.609325	0.345783	2.409355	0.000000

	<u>t</u> <u>Fiscal</u>	Net Coal Tax New Deposit <u>Millions</u>	Bond Subsidy <u>Millions</u>	New Deposit Long Term <u>Rate</u>	Non Pool STIP <u>Rate</u>	Non Pool In State <u>Rate</u>	Non Pool Loan <u>Rate</u>	Gains <u>Millions</u>
Actual	2000	0.000000	0.193782	6.3380%	5.4290%	0.0000%	0.0000%	
Actual	2001	0.000000	0.480790	6.8850%	4.7390%	0.0000%	0.0000%	
Actual	2002	0.000000	0.264847	6.3380%	2.5650%	5.5888%	7.2673%	0.654469
Actual	2003	0.000000	0.780492	5.7290%	1.3600%	6.2141%	7.0000%	0.994175
Actual	2004	3.943085	1.473545	5.3650%	1.2650%	5.3526%	7.3445%	0.000000
Actual	2005	4.704314	1.294028	5.1950%	2.3890%	5.3648%	7.3445%	0.856503
Actual	2006	0.000000	0.417249	5.2480%	4.0720%	5.3524%	7.3445%	1.332049
Forecast	2007	0.000000	0.034794	5.4970%	4.6690%	5.3524%	5.6201%	0.000000
Forecast	2008	0.000000	-0.092139	5.7460%	4.5980%	5.3524%	5.6218%	0.000000
Forecast	2009	0.000000	0.792783	5.9680%	4.5570%	5.3524%	5.6338%	0.000000

	<u>t</u> <u>Fiscal</u>	Non Pool STIP Bal <u>Millions</u>	Non Pool In-State Bal <u>Millions</u>	Non Pool Loan Bal <u>Millions</u>	SB495 Loan Payment <u>Millions</u>	Invested Balance <u>Millions</u>	Average Return <u>Rate</u>
Actual	2000	15.334577	127.567412	0.000000			
Actual	2001	22.784722	145.401756	0.000000			
Actual	2002	26.721811	168.249355	46.366904			
Actual	2003	37.107451	169.737929	46.366904			
Actual	2004	41.478106	156.145542	46.366904			
Actual	2005	48.813893	150.70809	44.546044	1.820860	552.184009	0.066125
Actual	2006	50.50952	160.849807	41.895873	2.650171	541.169460	0.057480
Forecast	2007	50.50952	160.849807	31.046823	10.849050	541.169460	0.055360
Forecast	2008	50.50952	160.849807	7.492408	23.554415	541.169460	0.055301
Forecast	2009	50.50952	160.849807	0.000000	7.492408	541.169460	0.055334

Total Rev. = Invested Balance \* Average Return

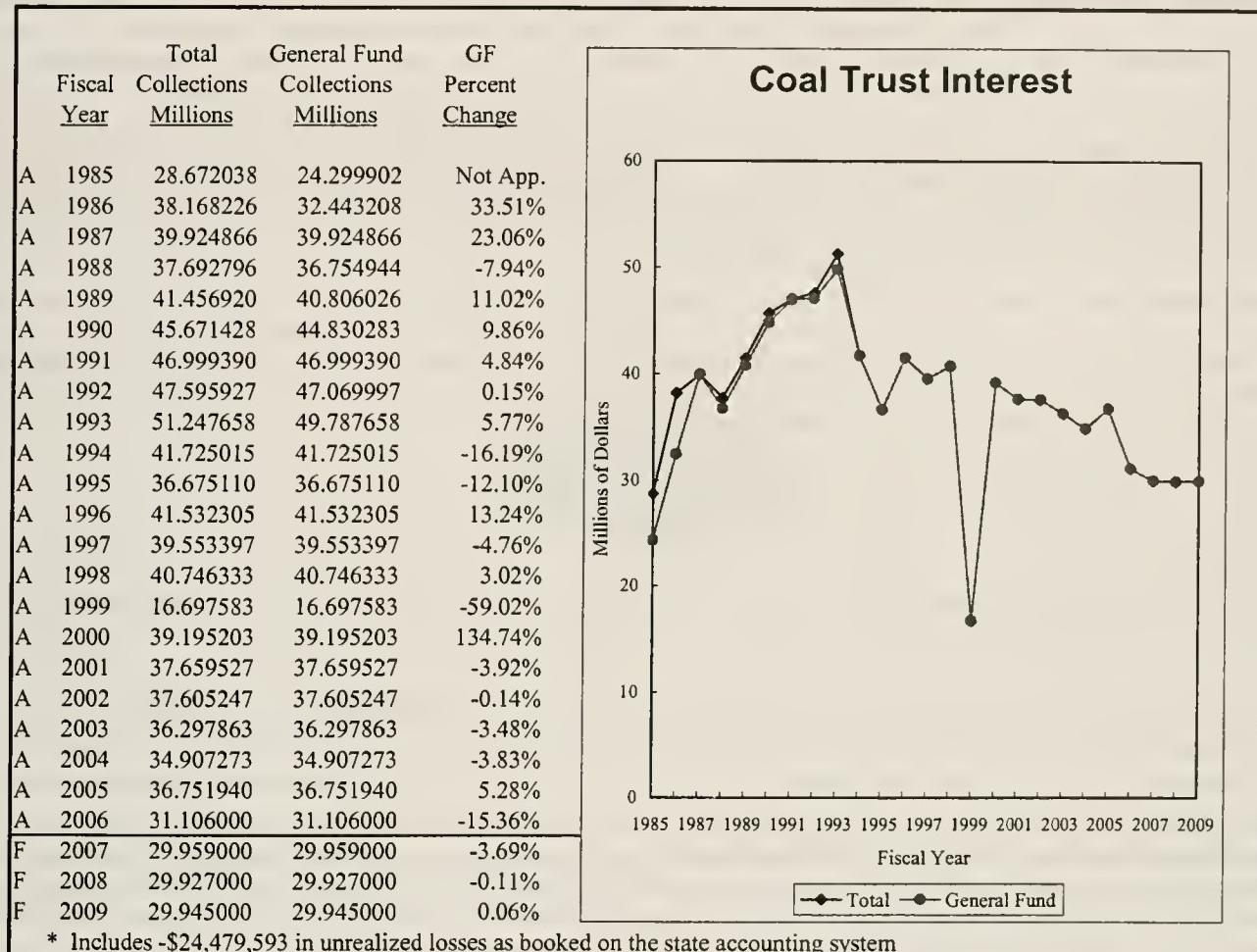
GF Rev. = Total Rev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Coal Trust Interest

#### Revenue Projection:



\* Includes -\$24,479,593 in unrealized losses as booked on the state accounting system

**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Board of Investments

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

**Revenue Description:** Lands granted by the federal government to the state for the benefit of public schools generate income. The common school trust is actually part of the trust and legacy trust fund that includes nine other trusts. Prior to fiscal 1996, interest and income from the common school trust was deposited in the state equalization account. Beginning in fiscal 1996, this interest and income was deposited in the general fund, as mandated by SB 83, passed by the 1995 legislature. Beginning fiscal 2003, House Bill 7 from the August 2002 special legislative session changed the deposit to the state special revenue guarantee account and statutorily appropriated the money for schools. The estimates show the amount of revenue deposited to the guarantee account and are net of amounts diverted (of mineral royalties, timber sale revenue, and income) for DNRC administration costs. Included is timber revenue for school technology and the amounts of mineral royalty revenue that is required to pay interest and principal on the SB 495 loan. These items are explained below.

Common school lands produce two kinds of revenue: 1) distributable income such as interest earnings, agricultural rents or crop shares, and timber sale revenue; and 2) permanent income that is returned to the trust such as income from the sale of minerals (see the effects of Senate Bill 495 from the 2003 legislative session below), land, and easements. Excluding the amount of timber sale revenue diverted for DNRC administration and school technology and after a 3.0 percent deduction of the revenue for use by the Department of Natural Resources and Conservation (DNRC), 95 percent of distributable revenue is available to fund schools and, due to Senate Bill 48 (discussed below), the remaining 5.0 percent is available to fund the Trust Land Management Division of DNRC. The 3.0 percent allocation to DNRC is used for resource development purposes. Timber revenue is allocated: 1) first to DNRC to fund a portion of its timber program based on the amount appropriated by the legislature (the remaining portion is funded with timber sale revenue from the capital land grant and other land trusts that generate timber revenue); 2) the amount received from production over 18 million board feet is deposited into the state special revenue fund for school technology equipment and training and is statutorily appropriated to OPI (House Bill 41 enacted by the 2001 legislature and House Bill 7 from the August 2002 special legislative session); and 3) any remainder for the support of public schools.

Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. The amount of the money diverted from the common school trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds (which include the trust and legacy fund of which the common school trust is a part), were transferred to a newly-created Trust Funds Bond Pool (TFBP). The majority of common school trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state Constitution prohibits the investment of common school trust funds in common stock. Interest income is distributed 95 percent to the guarantee account and 5 percent is available for DNRC administration with the remainder deposited to the trust.

Senate Bill 495 (enacted by the 2001 legislature) authorized DNRC to purchase the mineral production rights (with a loan from the coal severance trust) from the common school trust. The department subsequently purchased \$138.9 million of net future mineral royalties from the school trust for \$46.4 million. Since these royalties will no longer be deposited to the trust, interest earnings from the trust corpus are lessened. It is estimated that the trust balance will be at least \$92.5 million less after all the \$138.9 million has been distributed. Based on mineral royalty estimates for the 2009 biennium, it is anticipated that the \$138.9 million in net mineral royalties will be achieved in the 2011 biennium. When this occurs, mineral royalties will again become part of the trust corpus and will generate additional earnings. For further information and analysis on Senate Bill 495 contact the Legislative Fiscal Division for a copy of the two-part report: "Senate Bill 495-Implementation, Impacts and Implications".

#### **Statutory Reference:**

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article X, Section 5; 20-9-342 (school technology); 20-9-622 (guarantee account)

Other (MCA) – DNRC trust land administration diversion (77-1-109)

DNRC timber sale program diversion (77-1-613)

DNRC land bank administration diversion (77-2-362)

DNRC resource development diversion (77-1-607)

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

DNRC commercial leasing diversion (77-1-905)

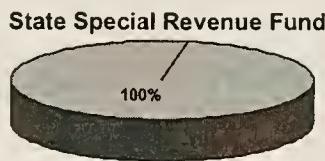
Enabling Act, Section 10

Date Due - the last business day of February following the calendar year in which the money was received (20-9-342).

**Applicable Tax Rate(s):** N/A

**Distribution:** As described above, interest and income from common school lands (including a portion of timber sales and after amounts diverted for DNRC administration) are distributed 95.0 percent to the state special revenue guarantee account and are statutorily appropriated for schools. The remaining 5.0 percent is available to fund the Trust Land Management Division with the remainder deposited to the trust fund. The portion of mineral royalties not used for DNRC administration or to repay SB 495 principal and interest is deposited to the guarantee account. The amounts deposited to the guarantee account are shown in this revenue source.

Distribution Chart:



**Collection Frequency:** Revenue is received monthly, however, distribution to the state special revenue fund takes place three times per year.

**% of Total General Fund Revenue:** N/A

**Revenue Estimate Methodology:**

The estimate for interest and income from the common school trust is conducted with the goal of deriving the net amount of revenue that will be deposited to the guarantee account. This means that in addition to estimating the various revenues from the common school trust, estimates of the various diversions that reduce the amount of revenue deposited to the guarantee account must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions.

#### Data

Data from the state accounting system (SABHRS) provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports provide additional information such as mineral prices and production. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions. DNRC personnel are contacted for their views on potential future factors that may influence revenues such as easement sales, changes in grazing and agricultural rentals, and timber harvest volumes. Global Insight provides future estimates of West Texas Intermediate oil and Henry Hub natural gas prices.

#### Analysis

The estimate is derived by first estimating the revenue components and then estimating the amounts of the diversions.

#### Revenue Components

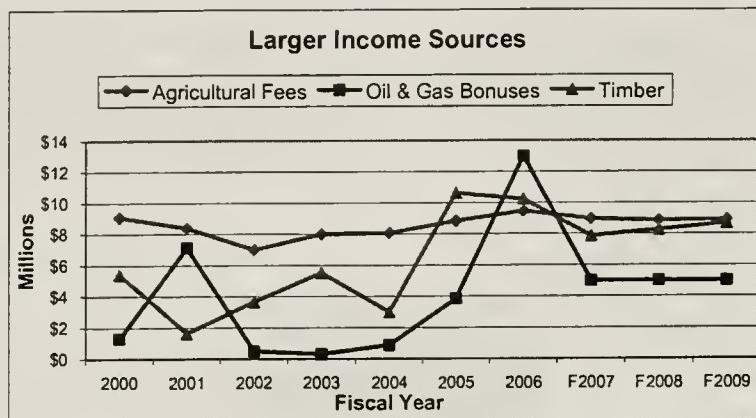
1. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and crop futures markets, revenue declines 5.4 percent in FY 2007, declines 1.1 percent in FY 2008 and increases 0.6 percent in FY 2009.
2. Timber – Estimates of timber harvest from common school trust lands are taken directly from DNRC estimates provided November 13, 2006.

# Legislative Fiscal Division

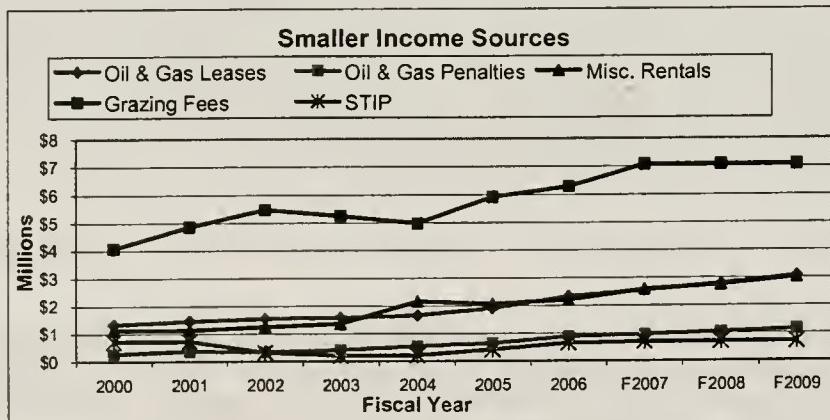
## Revenue Estimate Profile

### Common School Interest and Income

3. Oil & Gas Bonuses – With record highs in energy prices, competition to obtain mineral leases has increased, resulting in large bonus payments. This is primarily from oil and gas leases that increased over 21 percent in number of leases and in acreage from FY 2005. Bonus payments in FY 2006 were \$13.0 million or 3.4 times more than payments in FY 2005. The estimates are \$5.0 million each year. This is a reduction from the \$13.0 million received in FY 2006, but above the \$3.8 million received in FY 2005.



4. Grazing Fees – Rates are tied to the price of cattle. With the current high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium. Based on this information and cattle futures markets, the FY 2007 estimate increases 12.65 percent from FY 2006 and stays constant for the 2009 biennium.
5. Oil & Gas Leases – For each fiscal year estimated, an average annual growth rate over the previous seven year period was applied beginning with FY 2006 collections.
6. Oil & Gas Penalties – For each fiscal year estimated, the ratio of the previous year's penalties to the previous year's oil and gas lease revenue was multiplied by that year's estimate for oil and gas lease revenue.
7. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, an average annual growth rate over the previous three year period was applied beginning with FY 2006 collections.
8. Short-term Investment Pool (STIP) – Because revenue initially deposited in the common school trust is invested on a short-term basis (about one month) before being invested in the T & L fund, a short-term rate is used to calculate the earnings. The short-term rate is a composite of Global Insight forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates.



# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

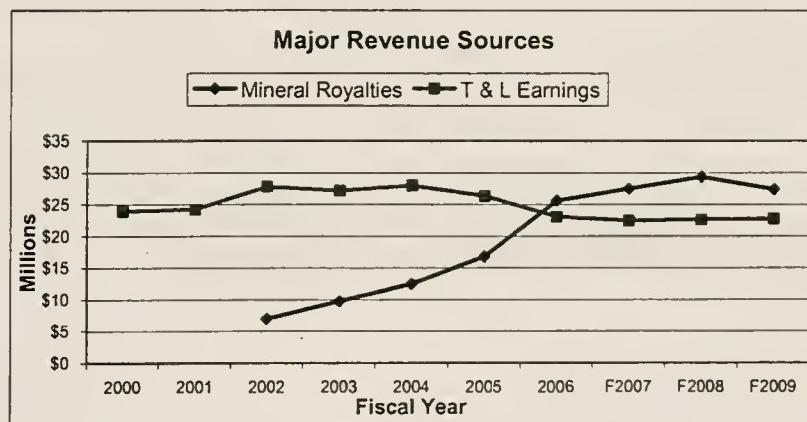
9. Mineral Royalties – Mineral royalties are received from the mining of oil, natural gas, coal, sand and gravel, and other smaller sources. Due to the passage of SB 495 by the 2001 legislature effective FY 2002, mineral royalties will be considered distributable income until a net amount (net of diversions that fund trust land administration) of \$138.9 million has been distributed. After that time, mineral royalties will again be deposited to the common school trust and will become part of the trust corpus. The additional corpus will generate additional earnings. It is expected that the effects of SB 495 will terminate in the 2011 biennium. The figure below shows total mineral royalties since FY 2002. The estimate for mineral royalties is obtained by multiplying together estimates for production, price, and the applicable royalty rate.

- Production – Oil and natural gas production is estimated by increasing the previous fiscal year's production by the growth rate obtained from a two-year average of the estimates for statewide oil and natural gas production (see the Oil and Natural Gas Production Tax profile). Coal production on state lands comes primarily from a single coal company. Information on projected production and percentage of production on state lands was obtained by surveying coal companies, including the main company producing on state lands. The average of this company's prior two calendar year's production estimates is multiplied by the estimated percentage of production on state lands. All other mineral production was held constant at the FY 2006 level.
- Price – Oil prices are calculated by multiplying the current year's West Texas Intermediate price by the ratio of the Montana price for the previous fiscal year to the West Texas Intermediate oil price for the previous fiscal year. A weighted average is then calculated to derive a fiscal year price. The same methodology is used for natural gas with the driving factor being the Henry Hub price. Coal price is determined by increasing the previous fiscal year's price by a growth rate obtained from a two year average of the calendar year estimates for coal prices (see the Coal Severance Tax profile).

10. Trust and Legacy Earnings – The monetary assets of the common school trust are pooled with monetary assets of other land trusts (termed “Trust and Legacy”) and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. For the common school trust, the actual FY 2006 share percentage of 92.8 is used. In FY 2007, a major addition to the investable corpus of the common school trust is expected from the sale of a right-of-way near Kalispell worth approximately \$5.1 million. The estimation of the total pool earnings is a three stage process:

- Earnings from new deposits – New deposits in the pool are estimated to be \$6.5 million in FY 2007 and \$1.4 million each year thereafter. This additional money initially earns interest at the short-term rate (4.7 percent) before it is invested in a longer term investment (5.5 percent).
- Earnings from existing balance – The TFBP balance in FY 2006 was \$423.2 million. These funds have been invested in bonds purchased over the past several year and average slightly higher rates of return (5.63 percent) than more recently purchased bonds.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 4.8 percent on a balance of \$3.9 million, the actual balance from FY 2006.

Once the total amount of the pool earnings has been estimated by summing the above three items, the common school share of 92.8 percent is applied.



# Legislative Fiscal Division

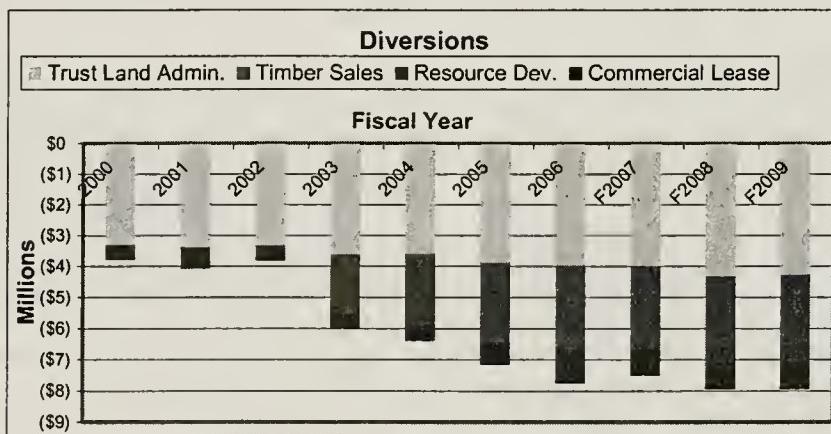
## Revenue Estimate Profile

### Common School Interest and Income

#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used.

- Trust Land Administration Account – Of the total expenditures requested to be made from this account, 97.8 percent (the actual portion from FY 2006) of the expenditures are funded by common school trust revenue. A portion of mineral royalties and permanent income is diverted to this account to fund department's activities in managing the common school trust lands. The portion of permanent revenue is determined by multiplying the amount of permanent revenue by the ratio of permanent revenue to the sum of mineral royalties and permanent revenue. Mineral royalty revenue funds the remainder of the expenditures.
- Timber Sales Account – A portion of timber sale revenue from the common school trust is used to fund costs associated with the timber sale program on the trust lands. Other trusts with timber revenue also pay into this account. The portion each pays is the ratio of its timber sale revenue to the total state-wide timber sale revenue multiplied by the total cost of the program. In FY 2006, the common school trust funded 78.7 percent of total expenditures.
- Resource Development Account – Three percent of all income from the common school trust is diverted to an account to fund resource development on the trust lands. Interest earnings are not included in the calculations.
- Commercial Leasing Account – Ten percent of revenue received from commercial leases is diverted to an account to fund activities associated with administering the leases.



#### Adjustments and Distribution

Once total revenue and total diversions have been estimated, the net amounts are distributed:

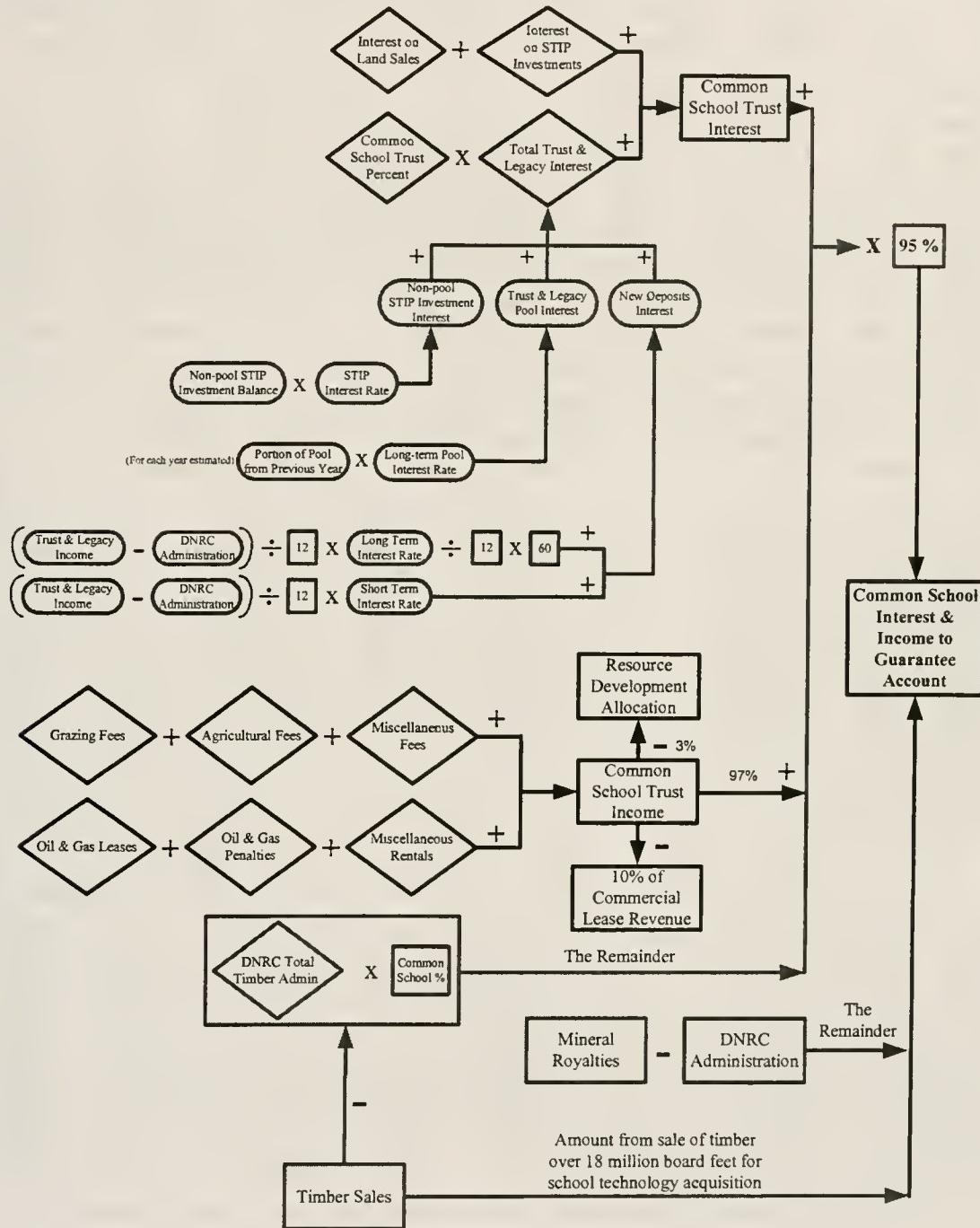
- 95 percent of the net amount of interest and income, excluding timber and mineral royalties, is deposited to the guarantee account and the remaining 5 percent is returned to the trust. The money deposited to the guarantee account is used for public schools.
- The value received from timber sales over 18 million board feet is distributed to the guarantee account to fund school technology. The amount of money distributed to the account in one year is spent in the next year.
- The remaining amount of timber (if any) is distributed 95 percent to the guarantee account and 5 percent is returned to the trust. The money deposited to the guarantee account is used for public schools.
- From FY 2007 to FY 2009, mineral royalties are distributed to the guarantee account. The money is first used to pay the remaining principal of the Senate Bill 495 loan of \$46.4 million from the coal severance tax trust and to pay interest to the general fund. The remainder (if any) is used for public schools.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Forecast Methodology:



**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Common School Interest and Income**

**Revenue Estimate Assumptions:**

<u>t</u>	<u>Fiscal</u>	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	TFBP Interest <u>Millions</u>	STIP Interest <u>Millions</u>	Common School Share <u>T&amp;L</u>	SB495 Loan Pay. <u>Millions</u>	Trust Land Expense <u>Millions</u>
Actual	2000	44.296034	44.296034			0.938562		
Actual	2001	46.845895	46.845895			0.923235		
Actual	2002	50.875186	48.937673	29.627056	0.102664	0.932906		
Actual	2003	48.977342	0.000000	29.146744	0.068370	0.931091	0.000000	-3.551119
Actual	2004	55.663022	0.000000	30.087011	0.053502	0.928698	-1.820860	-3.311911
Actual	2005	68.035764	0.000000	28.106281	0.269698	0.927050	-2.650171	-3.679601
Actual	2006	82.605539	0.000000	24.428206	0.408162	0.928000	-10.849050	-3.904704
Forecast	2007	75.414000	0.000000	23.781663	0.363942	0.928000	-23.554415	-3.907551
Forecast	2008	77.794000	0.000000	24.148202	0.225490	0.928000	-7.492408	-4.249206
Forecast	2009	77.049000	0.000000	24.280867	0.225102	0.928000	0.000000	-4.188911

<u>t</u>	Trust Income		New Deposit	Non Pool	Non Pool	SB495
<u>Fiscal</u>	New Deposit	<u>Millions</u>	Long Term <u>Rate</u>	STIP <u>Rate</u>	STIP Bal <u>Millions</u>	Interest <u>Millions</u>
Actual	2000	10.969295	7.0160%	5.4290%	11.676486	
Actual	2001	12.667780	6.8850%	4.7390%	6.984553	
Actual	2002	2.348339	6.3380%	2.5650%	7.334239	
Actual	2003	2.363355	5.7290%	1.3600%	6.242273	
Actual	2004	2.971526	5.3650%	1.2650%	7.049634	
Actual	2005	1.457756	5.1950%	2.3890%	12.106697	-3.005668
Actual	2006	1.425106	5.2480%	4.0720%	3.862666	-2.255822
Forecast	2007	6.537106	5.4970%	4.6690%	3.862666	-1.744862
Forecast	2008	1.425106	5.7460%	4.5980%	3.862666	-0.421208
Forecast	2009	1.425106	5.9680%	4.5570%	3.862666	0.000000

<u>t</u>	Grazing <u>Millions</u>	Agriculture <u>Millions</u>	Misc. <u>Millions</u>	O&G Lease <u>Millions</u>	O&G Bonus <u>Millions</u>	O&G Penalty <u>Millions</u>	Misc. <u>Millions</u>
Actual	2000	4.065911	9.053155	0.000000	1.328220	1.277231	0.261334
Actual	2001	4.850839	8.376539	0.000000	1.448285	7.118093	0.355322
Actual	2002	5.467322	6.998644	0.000000	1.540472	0.478224	0.334699
Actual	2003	5.243241	7.974945	0.000000	1.575356	-0.300943	0.399347
Actual	2004	4.970961	8.051131	0.000000	1.648808	0.870693	0.533758
Actual	2005	5.918241	8.816342	0.000000	1.893296	3.826961	0.640759
Actual	2006	6.276945	9.453271	0.000000	2.330531	13.005123	0.864068
Forecast	2007	7.070979	8.942794	0.000000	2.539121	5.000000	0.941405
Forecast	2008	7.070979	8.844423	0.000000	2.785385	5.000000	1.032710
Forecast	2009	7.070979	8.897490	0.000000	3.058166	5.000000	1.133846

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Common School Interest and Income**

						Commercial	
	t Fiscal	Int. Land <u>Millions</u>	Int. STIP <u>Millions</u>	Int. Trust <u>Millions</u>	Timber <u>Millions</u>	Res. Dev. <u>Millions</u>	Lease <u>Millions</u>
Actual	2000	0.000566	0.706653	23.905761	5.379555	-0.513416	
Actual	2001	0.000290	0.715090	24.206450	1.623592	-0.698124	
Actual	2002	0.000063	0.305319	27.775111	3.624785	-0.504023	
Actual	2003	0.019744	0.188794	27.201941	3.605510	-0.499362	
Actual	2004	0.002900	0.199526	27.991422	0.666749	-0.517845	
Actual	2005	0.025797	0.408384	26.305944	3.651789	-0.686492	-0.067175
Actual	2006	0.000000	0.641609	23.048141	2.878508	-1.003369	-0.067975
Forecast	2007	0.000000	0.687182	22.407121	2.642941	-0.812210	-0.067975
Forecast	2008	0.000000	0.685890	22.618786	2.739689	-0.824147	-0.067975
Forecast	2009	0.000000	0.692093	22.741539	2.879748	-0.845166	-0.067975

		Total Timber <u>Millions</u>	Timber Sales Pgm. <u>Millions</u>	School Technology <u>Millions</u>	Oil Royalties <u>Millions</u>	Gas Royalties <u>Millions</u>	Coal Royalties <u>Millions</u>	Other Royalties <u>Millions</u>
	t Fiscal							
Actual	2000	5.379555	0.000000	0.000000				
Actual	2001	1.623592	0.000000	0.000000				
Actual	2002	3.624785	0.000000	1.822162	2.390492	1.523062	2.836919	0.144369
Actual	2003	5.507588	-1.674571	0.000000	3.681611	1.995499	3.877054	0.148393
Actual	2004	2.968369	-1.940581	3.178988	4.851597	2.718035	4.676964	0.169754
Actual	2005	10.602272	-2.536323	4.414160	7.965516	4.329847	4.239865	0.194346
Actual	2006	10.227223	-2.707327	4.641388	14.759265	6.317280	4.179503	0.355698
Forecast	2007	7.855000	-2.687059	2.525000	16.778111	5.512014	4.754047	0.417794
Forecast	2008	8.250000	-2.783311	2.727000	16.997563	7.159912	4.748062	0.417794
Forecast	2009	8.675000	-2.814252	2.981000	15.326470	6.793833	4.825116	0.417794

		Oil Production <u>Barrels</u>	Gas Production <u>MCF's</u>	Coal Production <u>Tons</u>	Oil Price <u>\$/Barrel</u>	Gas Price <u>\$/MCF</u>	Coal Price <u>\$/Ton</u>	Excess Royalties <u>To Trust</u>
	t Fiscal							
Actual	2000	0.923777	5.050552	3.273552	22.670000	1.880000	11.650000	
Actual	2001	0.889786	6.294741	3.283378	26.470000	3.930000	12.000000	
Actual	2002	0.911057	5.892287	1.835880	20.320000	1.910000	11.800000	
Actual	2003	1.017463	5.380950	3.494901	28.140000	3.200000	9.590000	
Actual	2004	1.122987	5.720200	3.911826	31.020000	3.950000	8.600000	
Actual	2005	1.400063	7.240046	3.720126	44.690000	5.090000	9.120000	
Actual	2006	2.024282	7.878173	4.079399	57.240000	6.640000	8.630000	
Forecast	2007	2.190154	8.103262	4.452926	58.928454	5.441773	8.540986	0.000000
Forecast	2008	2.238107	7.997893	4.492360	58.420122	7.161798	8.455355	0.000000
Forecast	2009	2.063911	7.743900	4.620860	57.122581	7.018513	8.353625	0.000000

Total Rev. = (Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. + Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev. + Commercial Lease) \* .95 + Oil Roy. + Gas Roy + Coal Roy. + Other Roy. + School Technology + Trust Land Admin. - Excess Royalties To Trust

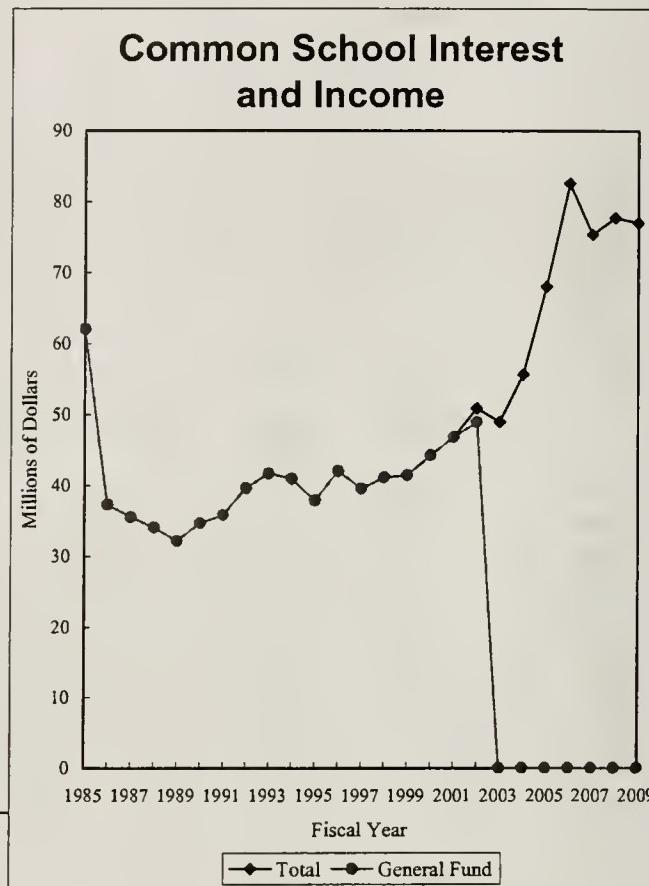
# Legislative Fiscal Division

## Revenue Estimate Profile

### Common School Interest and Income

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
1985	62.050661	62.050661	Not App.
1986	37.301053	37.301053	-39.89%
1987	35.529619	35.529619	-4.75%
1988	34.078544	34.078544	-4.08%
1989	32.165382	32.165382	-5.61%
1990	34.706901	34.706901	7.90%
1991	35.865505	35.865505	3.34%
1992	39.616168	39.616168	10.46%
1993	41.673746	41.673746	5.19%
1994	40.943551	40.943551	-1.75%
1995	37.904099	37.904099	-7.42%
1996	42.031801	42.031801	10.89%
1997	39.538792	39.538792	-5.93%
1998	41.129779	41.129779	4.02%
1999	41.432733	41.432733	0.74%
2000	44.296034	44.296034	6.91%
2001	46.845895	46.845895	5.76%
2002	50.875186	48.937673	4.47%
2003	48.977342	0.000000	-100.00%
2004	55.663022	0.000000	Not App.
2005	68.035764	0.000000	Not App.
2006	82.605539	0.000000	Not App.
2007	75.414000	0.000000	Not App.
2008	77.794000	0.000000	Not App.
2009	77.049000	0.000000	Not App.



**Data Source(s):** Board of Investments, DNRC - Centralized Services, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Department of Natural Resources and Conservation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

**Revenue Description:** Beginning in fiscal 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. The 1997 legislature appropriated \$3.9 million from the cultural trust fund for the immediate purchase of Virginia and Nevada City properties. This action resulted in a loss of trust interest revenue that otherwise would be used to fund cultural and aesthetic (C&A) projects in the state during the 1999 biennium. Thus, beginning July 1, 1997, and ending June 30, 1999, 0.87 percent in coal severance tax revenue was allocated to an account in the state special revenue fund to compensate for the lost interest earnings and the previous 0.63 percent distribution of coal severance tax to the cultural trust was eliminated. Except for fiscal 2003, beginning July 1, 1999, the amount of 0.63 percent is once again statutorily allocated to the cultural trust, the interest from which is to be used for the purpose of protection of works of art in the capitol and for other cultural and aesthetic projects. The August 2002 special legislative session eliminated the allocation for fiscal 2003 only.

#### Statutory Reference:

Tax Rate - NA  
Distribution (MCA) - 15-35-108(6), 22-2-305  
Date Due - NA

#### Applicable Tax Rate(s): N/A

**Distribution:** All income from the trust is deposited in a state special revenue fund to be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

#### Distribution Chart:



**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data used to estimate the interest and earnings of the cultural trust are collected from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides historic interest earnings from the trust as well as the gains and losses from the sale of investment instruments. Projections of interest rates are provided by the GI, and historic earnings are provided from SABHRS. No adjustments are required on the raw data in preparation for analysis.

##### Analysis

The cultural trust, formed in the late 1970's, was created from distributions of the coal severance tax. The cultural trust receives coal tax distributions at the rate of 0.63 percent of the total tax. In several years of budget stress, the coal tax distribution to the cultural trust was temporarily eliminated or reduced. The principal of the trust was reduced by \$3.9 million in fiscal 1997 and the funds were used for the purchase of Virginia and Nevada Cities. In fiscal 2006, the trust was reimbursed for \$3.4 million, substantially increasing the principal of the trust. The principal or corpus of the cultural trust now stands at \$8.5 million, as demonstrated by the line in the figure below. Estimates of future deposits to the cultural trust are developed in the coal severance

# Legislative Fiscal Division

## Revenue Estimate Profile

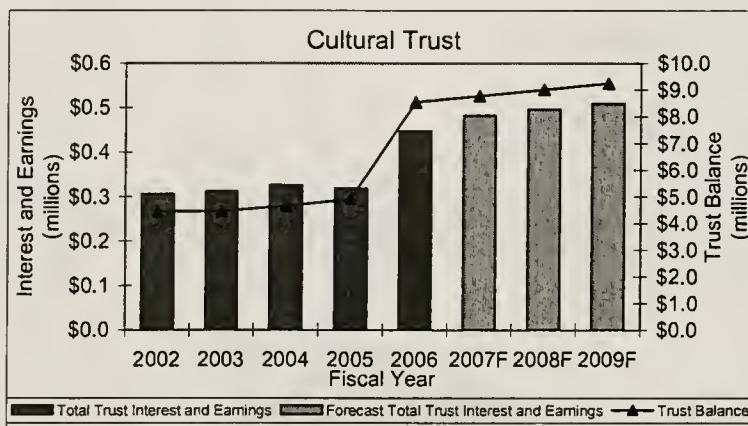
### Cultural Trust Interest

tax projection and are expected to be \$231,000 in fiscal 2007, \$238,000 in fiscal 2008, and \$228,000 in fiscal 2009.

To forecast the cultural trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

- The trust funds bond pool (TFBP)
- The short term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. TFBP earnings are the largest source of earnings for the trust. The TFBP earnings are estimated by applying a long-term interest rate to the projected TFBP balance. The applicable long term rate is an average of four rates projected by Global Insight and includes the corporation Aaa bond rate, the corporate Baa bond rate, the rate on 10-year treasury bonds, and the rate on 30-year treasury bonds. The average rate is then factored to produce a fiscal year average rate. The fiscal year long-term rate is expected to be 5.50 percent, 5.75 percent, and 5.97 percent for fiscal years 2007 through 2009, respectively. When the rates are applied to the TFBP balance, expected TFBP interest is \$472,910 in fiscal 2007, \$485,608 in fiscal 2008, and \$499,283 in fiscal 2009.



STIP interest is earned on the temporary investment of trust funds. Funds are acquired from activities such as new deposits and investment sales. Funds are held in STIP until the BOI determines that conditions are favorable for deposit in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of the interest rates on three and six-month corporate loans and three and six-month treasury bills. The average rates are then factored to a fiscal year average rate. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the cultural STIP balance, STIP estimates are \$3,103; \$3,056; and \$3,029 for fiscal years 2007 through 2009.

The 0.63 percent coal severance tax distribution to the cultural trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year. For the cultural trust, new deposits are expected to earn interest of \$6,719; \$7,180; and \$7,102 for fiscal years 2007 through fiscal 2009, respectively.

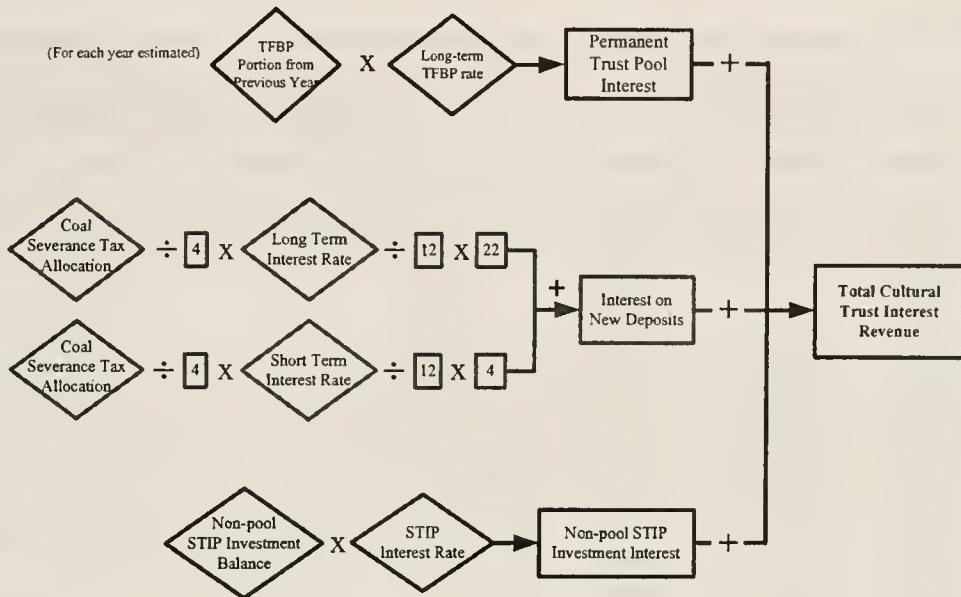
When the estimates are combined, the interest earnings of the cultural trust are expected to be \$482,732 in fiscal 2007, \$495,844 in fiscal 2008, and \$509,414 in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

<u>t</u>	Total Rev. Fiscal	GF Rev. Millions	TFBP Interest Millions	STIP Interest Millions	Invested Balance Millions	Average Return
Actual	2000	0.253951	0.000000			
Actual	2001	0.286146	0.000000			
Actual	2002	0.305355	0.000000	0.304397	0.000957	
Actual	2003	0.314131	0.000000	0.310495	0.001135	0.069526
Actual	2004	0.325684	0.000000	0.324526	0.001158	0.069391
Actual	2005	0.318333	0.000000	0.316149	0.002184	0.064541
Actual	2006	0.447040	0.000000	0.421171	0.025868	0.052729
Forecast	2007	0.483000	0.000000	0.472910	0.009822	0.055428
Forecast	2008	0.496000	0.000000	0.485608	0.010236	0.055419
Forecast	2009	0.510000	0.000000	0.499283	0.010131	0.055521

<u>t</u>	Net Coal Tax New Deposit Fiscal	New Deposit Long Term Rate	Non Pool STIP Rate	Non Pool STIP Bal Millions
Actual	2000	0.212426	7.0160%	5.4290% 0.249639
Actual	2001	0.203724	6.8850%	4.7390% 0.028633
Actual	2002	0.199168	6.3380%	2.5650% 0.102287
Actual	2003	0.000000	5.7290%	1.3600% 0.062902
Actual	2004	0.198731	5.3650%	1.2650% 0.088412
Actual	2005	0.237097	5.1950%	2.3890% 0.092433
Actual	2006	0.225676	5.2480%	4.0720% 0.063498
Forecast	2007	0.231000	5.4970%	4.6690% 0.063498
Forecast	2008	0.238000	5.7460%	4.5980% 0.063498
Forecast	2009	0.228000	5.9680%	4.5570% 0.063498

Total Rev. = Invested Balance \* Average Return

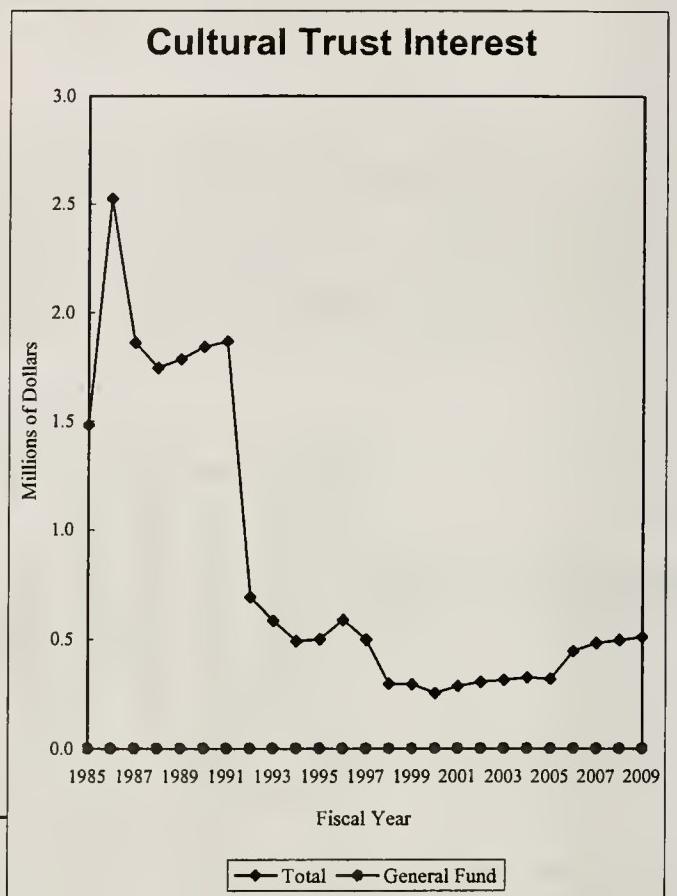
# Legislative Fiscal Division

## Revenue Estimate Profile

### Cultural Trust Interest

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.480704	0.000000	Not App.
A 1986	2.523046	0.000000	Not App.
A 1987	1.860405	0.000000	Not App.
A 1988	1.745652	0.000000	Not App.
A 1989	1.785198	0.000000	Not App.
A 1990	1.842276	0.000000	Not App.
A 1991	1.867393	0.000000	Not App.
A 1992	0.691916	0.000000	Not App.
A 1993	0.582833	0.000000	Not App.
A 1994	0.491150	0.000000	Not App.
A 1995	0.499401	0.000000	Not App.
A 1996	0.587588	0.000000	Not App.
A 1997	0.498695	0.000000	Not App.
A 1998	0.297580	0.000000	Not App.
A 1999	0.295223	0.000000	Not App.
A 2000	0.253951	0.000000	Not App.
A 2001	0.286146	0.000000	Not App.
A 2002	0.305355	0.000000	Not App.
A 2003	0.314131	0.000000	Not App.
A 2004	0.325684	0.000000	Not App.
A 2005	0.318333	0.000000	Not App.
A 2006	0.447040	0.000000	Not App.
F 2007	0.483000	0.000000	Not App.
F 2008	0.496000	0.000000	Not App.
F 2009	0.510000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

#### Contacts:

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

**Revenue Description:** Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income. These lands produce revenue through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Income from certain portions of public school/institution lands has been designated for support of the School for the Deaf and Blind. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Deaf and Blind trust, which generates interest earnings for the state. As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created Trust Funds Bond Pool (TFBP). The majority of trust and legacy trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state constitution prohibits the investment of the permanent trust in common stock.

In accordance with statute, 3.0 percent of Deaf and Blind trust interest and income is diverted to the Department of Natural Resources and Conservation (DNRC) to be used for resource development purposes. Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. In addition, a portion of timber sale revenue is diverted to fund a portion of DNRC's timber program. The amount of the money diverted from the Deaf and Blind trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

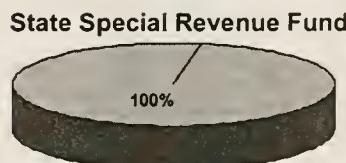
#### Statutory Reference:

- Tax Rate – NA
- Distribution (MCA) – 20-8-110
- Other (MCA) –
  - DNRC trust land administration diversion (77-1-109)
  - DNRC timber sale program diversion (77-1-613)
  - DNRC land bank administration diversion (77-2-362)
  - DNRC resource development diversion (77-1-607)
  - DNRC commercial lease diversion (77-1-905)
- Enabling Act, Sections 11 & 17

#### Applicable Tax Rate(s): N/A

**Distribution:** Interest and income from the trust, net of amounts to fund DNRC administration, are allocated to the School for the Deaf and Blind.

#### Distribution Chart:



**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

The estimate for interest and income from the Deaf and Blind trust is conducted with the goal of deriving the net amount of revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various distributable revenues

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

from the trust, estimates of the various diversions that reduce the amount of distributable revenue must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions. Permanent revenue (revenue that is not distributed, but remains in the trust such as from timber and mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are portioned to this trust according to the number of shares owned.

#### Data

Data from the state accounting system (SABHRS) provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports provide additional information such as mineral prices and production and timber estimates. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions.

#### Analysis

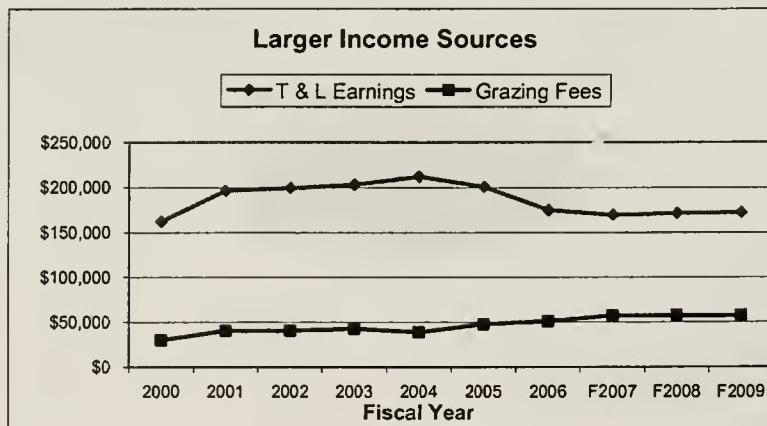
The estimate is derived by first estimating the distributable revenue components and then estimating the amounts of the diversions.

#### Revenue Components

1. Trust and Legacy Earnings (see the figure below) – The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. For the Deaf and Blind trust, the actual FY 2006 share percentage of 0.7 is used. The estimation of the total pool earnings is a three stage process:
  - Earnings from new deposits – New deposits in the pool are estimated to be \$6.5 million in FY 2007 and \$1.5 million in FY 2008 and FY 2009. This additional money initially earns interest at the short-term rate (4.7 percent) before it is invested in a longer term investment (5.5 percent).
  - Earnings from existing balance – The pool balance in FY 2006 was \$423.2 million. These funds have been invested in bonds purchased over the past several year and average slightly higher rates of return (5.63 percent) than more recently purchased bonds.
  - Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 4.8 percent on a balance of \$3.9 million, the actual balance from FY 2006.

Once the total amount of the pool earnings has been estimated by summing the above three items, the Deaf and Blind trust share of 0.7 percent is applied.

2. Grazing Fees – Rates are tied to the price of cattle. With the currently high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium (see the figure below). Based on this information and cattle futures markets, the FY 2007 estimate increases 12.65 percent from FY 2006 and stays constant for the 2009 biennium.

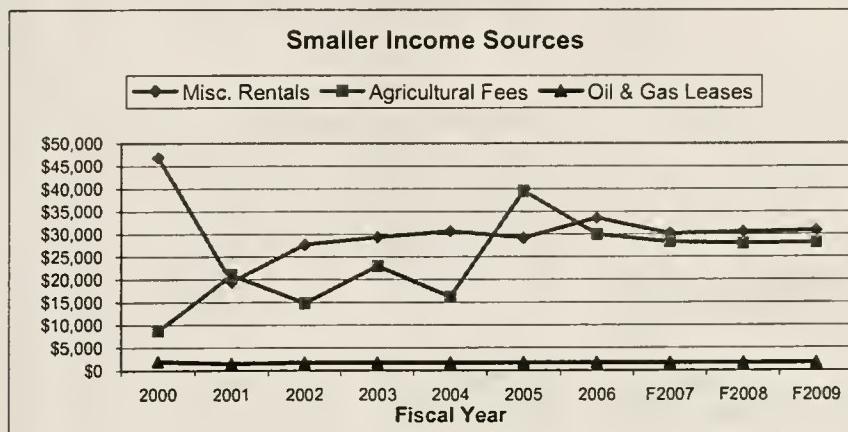


# Legislative Fiscal Division

## Revenue Estimate Profile

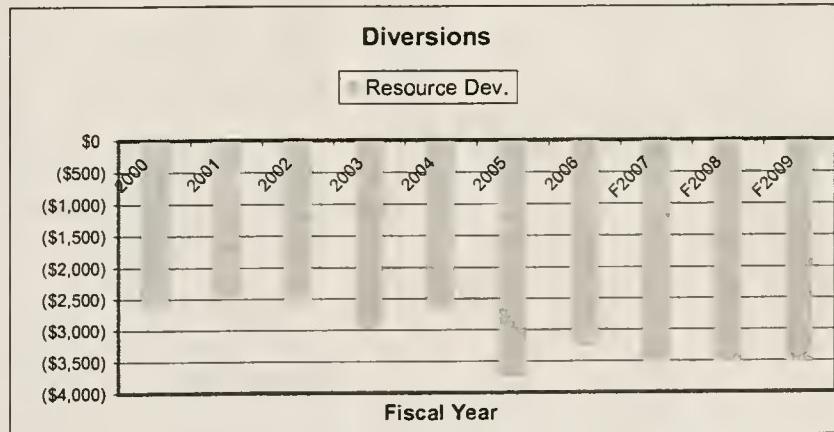
### Deaf and Blind Trust Interest and Income

3. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on the average annual growth rate of the previous four years with the highest and lowest amounts removed.
4. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and crop futures markets, revenue declines 5.4 percent in FY 2007, declines 1.1 percent in FY 2008 and increases 0.6 percent in FY 2009.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous three years.



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used. The only diversion that affects distributable revenue is the three percent of all income from the trust that is diverted to an account to fund resource development on the trust lands.



#### Adjustments and Distribution

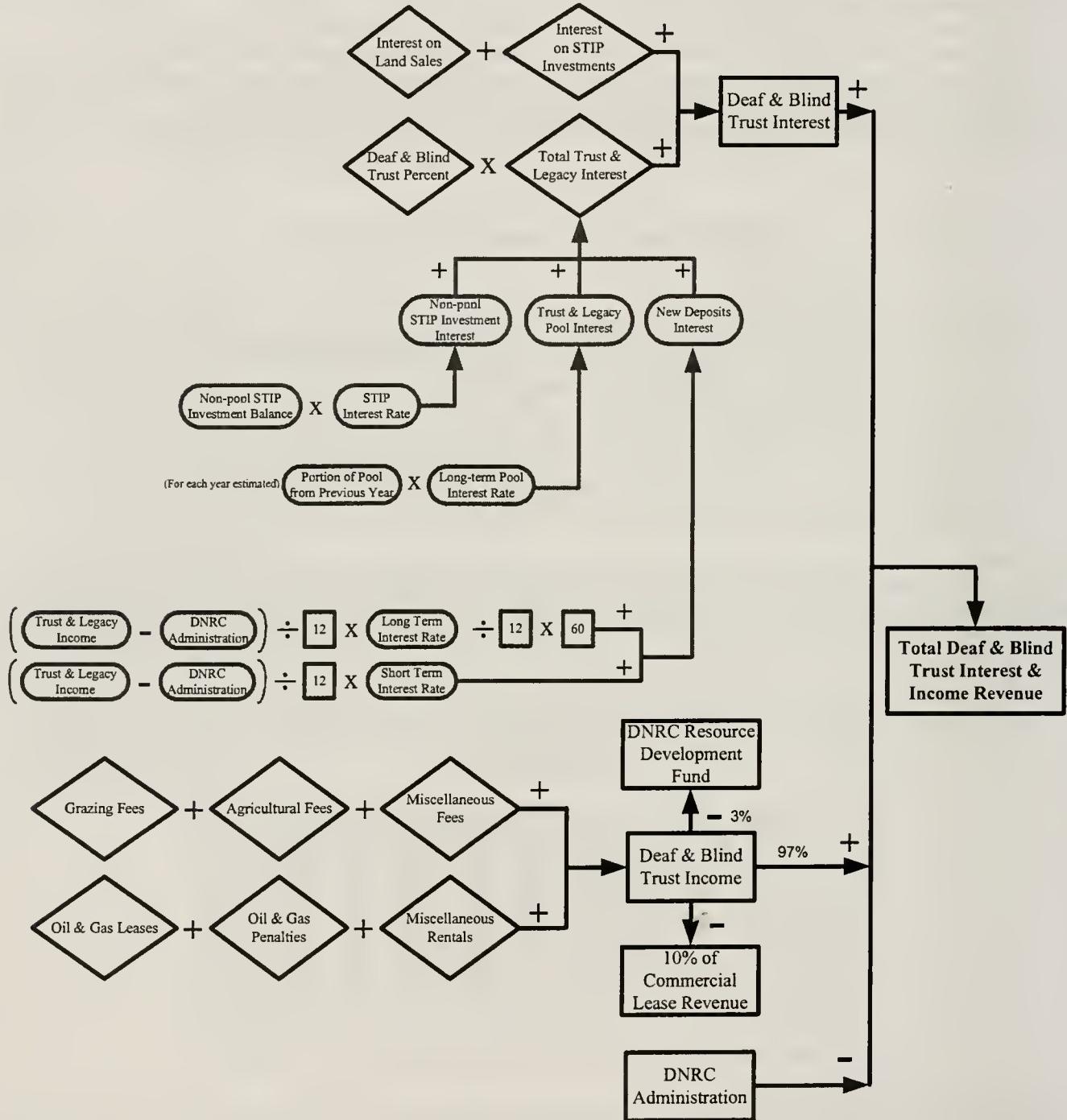
Once total revenue and total diversions have been estimated, the net amounts are distributed 100 percent to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Deaf and Blind Trust Interest and Income

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	TFBP Interest <u>Millions</u>	STIP Interest <u>Millions</u>	Deaf & Blind Share <u>T&amp;L</u>
Actual	2000	0.251003	0.000000			0.006369
Actual	2001	0.278974	0.000000			0.007485
Actual	2002	0.284290	0.000000	29.627056	0.102664	0.006697
Actual	2003	0.299569	0.000000	29.146744	0.068370	0.006947
Actual	2004	0.299050	0.000000	30.087011	0.053502	0.007029
Actual	2005	0.318818	0.000000	28.106281	0.269698	0.007072
Actual	2006	0.290605	0.000000	24.428206	0.408162	0.007029
Forecast	2007	0.284000	0.000000	23.781663	0.363942	0.007029
Forecast	2008	0.286000	0.000000	24.148202	0.225490	0.007029
Forecast	2009	0.287000	0.000000	24.280867	0.225102	0.007029

	<u>t</u> <u>Fiscal</u>	Trust Income <u>New Deposit</u> <u>Millions</u>	Trust Land <u>Admin.</u> <u>Millions</u>	New Deposit <u>Long Term</u> <u>Rate</u>	Noa Pool <u>STIP</u> <u>Rate</u>	Non Pool <u>STIP</u> <u>Bal</u> <u>Millions</u>
Actual	2000	10.969295		7.0160%	5.4290%	11.676486
Actual	2001	12.667780	0.000000	6.8850%	4.7390%	6.984553
Actual	2002	2.348339	0.000000	6.3380%	2.5650%	7.334239
Actual	2003	2.363355	0.000000	5.7290%	1.3600%	6.242273
Actual	2004	2.971526	0.000000	5.3650%	1.2650%	7.049634
Actual	2005	1.457756	0.000000	5.1950%	2.3890%	12.106697
Actual	2006	1.425106	0.000000	5.2480%	4.0720%	3.862666
Forecast	2007	6.537106	0.000000	5.4970%	4.6690%	3.862666
Forecast	2008	1.425106	0.000000	5.7460%	4.5980%	3.862666
Forecast	2009	1.425106	0.000000	5.9680%	4.5570%	3.862666

	<u>t</u> <u>Fiscal</u>	Grazing <u>Millions</u>	Agriculture <u>Millions</u>	Misc. <u>Millions</u>	O&G Lease <u>Millions</u>	O&G Bonus <u>Millions</u>	O&G Penalty <u>Millions</u>	Misc. <u>Millions</u>
Actual	2000	0.030113	0.008628	0.000000	0.001980	0.001280	0.000000	0.046783
Actual	2001	0.040496	0.020937	0.000000	0.001440	0.000480	0.000000	0.019365
Actual	2002	0.040733	0.014776	0.000000	0.001740	0.000050	0.000000	0.027618
Actual	2003	0.042676	0.022940	0.000000	0.001740	0.000000	0.000000	0.029242
Actual	2004	0.038658	0.016168	0.000000	0.001740	0.000000	0.000000	0.030636
Actual	2005	0.047753	0.039470	0.000000	0.001740	0.000000	0.000000	0.029180
Actual	2006	0.050892	0.029866	0.000000	0.001740	0.000000	0.000000	0.033529
Forecast	2007	0.057330	0.028253	0.000000	0.001740	0.000000	0.000000	0.030041
Forecast	2008	0.057330	0.027942	0.000000	0.001740	0.000000	0.000000	0.030526
Forecast	2009	0.057330	0.028110	0.000000	0.001740	0.000000	0.000000	0.030782

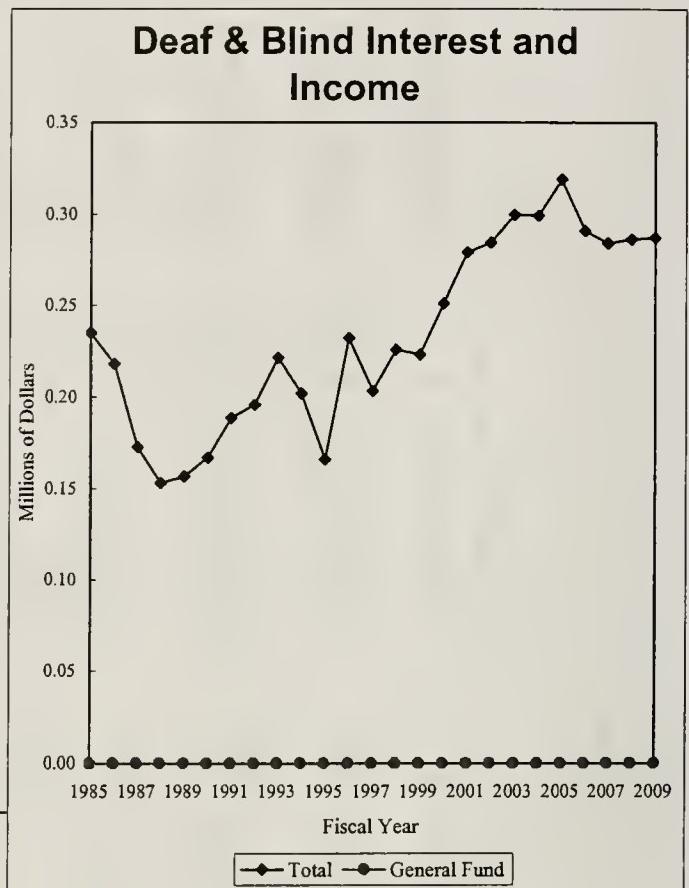
	<u>t</u> <u>Fiscal</u>	Int. Land <u>Millions</u>	Int. STIP <u>Millions</u>	Int. Trust <u>Millions</u>	Timber <u>Millions</u>	Res. Dev. <u>Millions</u>
Actual	2000	0.000000	0.000000	0.162218	0.000000	-0.002664
Actual	2001	0.000000	0.000000	0.196256	0.000000	-0.002482
Actual	2002	0.000000	0.000000	0.199373	0.000000	-0.002548
Actual	2003	0.000000	0.000000	0.202971	0.000000	-0.002988
Actual	2004	0.000000	0.000000	0.211848	0.000000	-0.002697
Actual	2005	0.000000	0.000000	0.200675	0.000000	-0.003758
Actual	2006	0.000000	0.000000	0.174578	0.000000	-0.003294
Forecast	2007	0.000000	0.000000	0.169719	0.000000	-0.003521
Forecast	2008	0.000000	0.000000	0.171323	0.000000	-0.003526
Forecast	2009	0.000000	0.000000	0.172252	0.000000	-0.003539

Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. + Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev.

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Deaf and Blind Trust Interest and Income**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.234883	0.000000	Not App.
A 1986	0.217873	0.000000	Not App.
A 1987	0.172649	0.000000	Not App.
A 1988	0.153017	0.000000	Not App.
A 1989	0.156725	0.000000	Not App.
A 1990	0.166856	0.000000	Not App.
A 1991	0.188508	0.000000	Not App.
A 1992	0.195590	0.000000	Not App.
A 1993	0.221242	0.000000	Not App.
A 1994	0.201764	0.000000	Not App.
A 1995	0.165804	0.000000	Not App.
A 1996	0.232032	0.000000	Not App.
A 1997	0.203021	0.000000	Not App.
A 1998	0.225615	0.000000	Not App.
A 1999	0.223009	0.000000	Not App.
A 2000	0.251003	0.000000	Not App.
A 2001	0.278974	0.000000	Not App.
A 2002	0.284290	0.000000	Not App.
A 2003	0.299569	0.000000	Not App.
A 2004	0.299050	0.000000	Not App.
A 2005	0.318818	0.000000	Not App.
A 2006	0.290605	0.000000	Not App.
F 2007	0.284000	0.000000	Not App.
F 2008	0.286000	0.000000	Not App.
F 2009	0.287000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

**Revenue Description:** Article IX, Section 5 of the Montana Constitution requires that 50.0 percent of all coal severance tax revenue be deposited in a permanent coal trust fund and that the principal of the trust "shall forever remain inviolate unless appropriated by a three-fourths vote of each house". Coal severance tax funds flowing into the trust fund are first used to secure and subsidize state bonds issued to finance water resource and renewable resource development projects and activities. With the enactment of House Bill 249 by the 2005 legislature, beginning fiscal 2006 the remaining funds are then split 50 percent (25 percent of total revenue) to the treasure state endowment trust fund, 25 percent (12.5 percent of total revenue) to the treasure state endowment regional water system trust fund, and 25 percent (12.5 percent of total revenue) to the big sky economic development trust fund. The permanent trust fund no longer receives coal severance tax revenue.

As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created trust funds bond pool (TFBP). The majority of permanent coal tax trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's short-term investment pool (STIP). In addition, state law provides that trust funds may be used for in-state commercial loans to stimulate economic development. The state Constitution prohibits the investment of the permanent trust in common stock.

#### **Statutory Reference:**

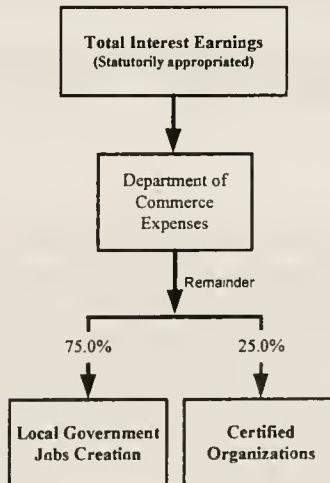
Tax Rate – NA  
Distribution (MCA) – 17-5-703 (5b); use of earnings (90-1-205)  
Date Due (MCA) – monthly (17-5-703(5b))

#### **Applicable Tax Rate(s):** N/A

**Distribution:** Interest earnings are deposited to a state special revenue fund and are statutorily appropriated to the Department of Commerce to pay administrative expenses with the remainder for:

1. 75% to local governments to be used for job creation; and
2. 25% to certified regional development corporations and economic development organizations

#### Distribution Chart:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

- Economic Factors
  - Prevailing national interest and bond rates
  - Inflationary pressures
  - Coal price
  - Coal production costs
- Social Factors - None
- Legislative Factors
  - State legislative impacts
    - Coal severance tax and distribution related changes
    - Constitutional restrictions on types of investments (i.e. no investments in equities)
    - Appropriations from the trust sub-fund
  - Federal legislative impacts

#### **Revenue Estimate Methodology:**

##### Data

The data used to estimate interest earnings from the big sky economic trust are obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The economic trust was created from distributions of the coal severance tax. The economic trust was formed in fiscal 2006 as a sub-trust to the permanent coal trust. The Constitution requires that 50 percent of the coal severance tax collections be distributed to the coal trust, and 25 percent of that distribution (after the water bond debt service obligation is met) or 12.5 percent of total coal severance tax revenues is distributed to the Big Sky Economic Development trust. The principal or corpus of the trust now stands at \$24.8 million. Estimates of future deposits to the trust are developed in the coal severance tax projection and are expected to be \$4.6 million in fiscal 2007, \$4.7million in fiscal 2008, and \$4.3 million in fiscal 2009.

To forecast the economic trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

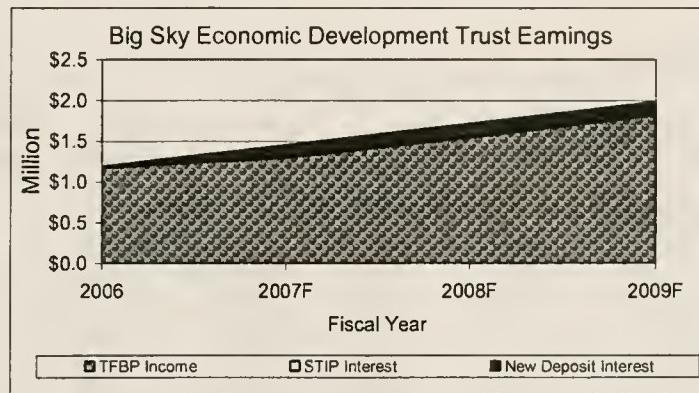
- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Big Sky Economic Development trust earnings from TFBP interest are expected to be \$1.29 million in fiscal 2007, \$1.54 million in fiscal 2008, and \$1.82 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Economic Development Trust Interest

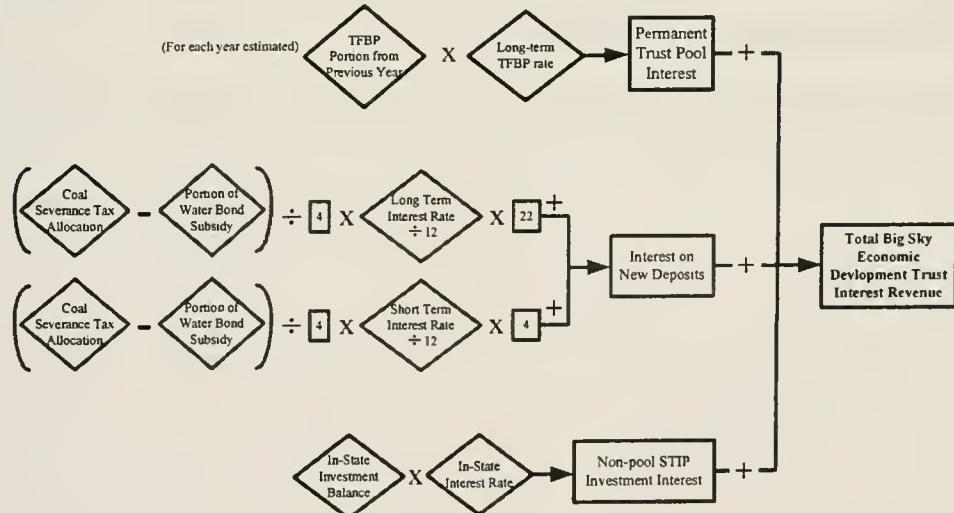


STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$29,742; \$29,290; and \$29,029 for fiscal years 2007 through 2009.

Coal severance tax distributions to the trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year. For the cultural trust, new deposits are expected to earn interest of \$132,920; \$143,054; and \$134,634 for fiscal years 2007 through fiscal 2009, respectively.

When the estimates are combined, the interest earnings of the trust are expected to be \$1.46 million in fiscal 2007, \$1.72 million in fiscal 2008, and \$1.98 million in fiscal 2009.

#### Forecast Methodology:



**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Economic Development Trust Interest**

**Revenue Estimate Assumptions:**

	<u>t</u>	Total Rev.	GF Rev.	TFBP	STIP	Loan	Invested	Average
	Fiscal	<u>Millions</u>	<u>Millions</u>	Interest <u>Millions</u>	Interest <u>Millions</u>	Interest <u>Millions</u>	Balance <u>Millions</u>	Return <u>Rate</u>
Actual	2000	0.000000	0.000000					
Actual	2001	0.000000	0.000000					
Actual	2002	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2003	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2004	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2005	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Actual	2006	1.193690	0.000000	1.174442	0.019250	0.000000	23.608298	0.050562
Forecast	2007	1.455000	0.000000	1.292608	0.162662	0.000000	28.178298	0.051645
Forecast	2008	1.716000	0.000000	1.544212	0.172344	0.000000	32.920298	0.052143
Forecast	2009	1.982000	0.000000	1.819447	0.163663	0.000000	37.242298	0.053249

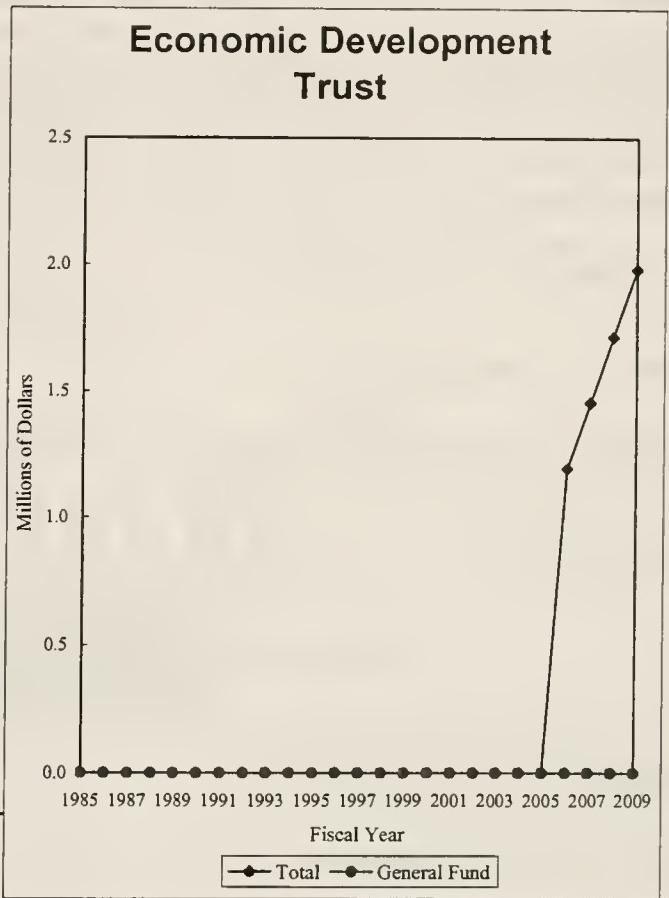
	<u>t</u>	Net Coal Tax	New Deposit	Non Pool	Non Pool
	Fiscal	New Deposit	New Deposit	STIP	STIP Bal
		<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual	2000	0.000000	6.3380%	5.4290%	0.000000
Actual	2001	0.000000	6.8850%	4.7390%	0.000000
Actual	2002	0.000000	6.3380%	2.5650%	0.000000
Actual	2003	0.000000	5.7290%	1.3600%	0.000000
Actual	2004	0.000000	5.3650%	1.2650%	0.000000
Actual	2005	0.000000	5.1950%	2.3890%	0.000000
Actual	2006	4.477691	5.2480%	4.0720%	0.608562
Forecast	2007	4.570000	5.4970%	4.6690%	0.608562
Forecast	2008	4.742000	5.7460%	4.5980%	0.608562
Forecast	2009	4.322000	5.9680%	4.5570%	0.608562

Total Rev. = Invested Balance \* Average Return

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Economic Development Trust Interest**

**Revenue Projection:**

Fiscal Year	Total Collections <u>Millions</u>	General Fund Collections <u>Millions</u>	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	0.000000	0.000000	Not App.
A 1993	0.000000	0.000000	Not App.
A 1994	0.000000	0.000000	Not App.
A 1995	0.000000	0.000000	Not App.
A 1996	0.000000	0.000000	Not App.
A 1997	0.000000	0.000000	Not App.
A 1998	0.000000	0.000000	Not App.
A 1999	0.000000	0.000000	Not App.
A 2000	0.000000	0.000000	Not App.
A 2001	0.000000	0.000000	Not App.
A 2002	0.000000	0.000000	Not App.
A 2003	0.000000	0.000000	Not App.
A 2004	0.000000	0.000000	Not App.
A 2005	0.000000	0.000000	Not App.
A 2006	1.193690	0.000000	Not App.
F 2007	1.455000	0.000000	Not App.
F 2008	1.716000	0.000000	Not App.
F 2009	1.982000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

**Revenue Description:** Beginning in fiscal 1976, a portion of coal severance tax revenue was deposited into the Parks Acquisition and Arts Protection trust fund. The 1991 legislature split the principal of this trust into two separate trusts, the Parks Acquisition trust (parks trust) and the Arts Protection trust (cultural trust), with coal severance taxes allocated to each one. Except for fiscal 2003, the amount of 1.27 percent of coal tax revenues is statutorily allocated to the parks trust for the purpose of parks acquisition or management. The August 2002 special legislative session eliminated the allocation for fiscal 2003 only. Income from the parks trust must be appropriated for the acquisition, development, operation, and maintenance of state parks, state recreational areas, state monuments, and state historical sites under control of the Department of Fish, Wildlife and Parks.

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 15-35-108(4)  
Date Due – NA

#### Applicable Tax Rate(s): N/A

**Distribution:** Interest earnings on the parks trust are allocated to the Department of Fish, Wildlife, and Parks and deposited to a state special revenue fund.

#### Distribution Chart:



#### Collection Frequency: Monthly

#### % of Total General Fund Revenue: N/A

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the parks trust are obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The parks trust, formed in the late 1970's, was created from distributions of the coal severance tax. The parks trust receives coal tax distributions at the rate of 1.27 percent of the total tax. In one year of budget stress, the coal tax distribution to the parks trust was temporarily eliminated. The principal or corpus of the parks trust now stands at \$17.4 million, as demonstrated by the line in the figure below. Estimates of future deposits to the parks trust are developed in the coal severance tax projection and are expected to be \$465,000 in fiscal 2007, \$479,000 in fiscal 2008, and \$459,000 in fiscal 2009.

To forecast the parks trust interest earnings, each of three interest/income components are estimated independently and combined.

# Legislative Fiscal Division

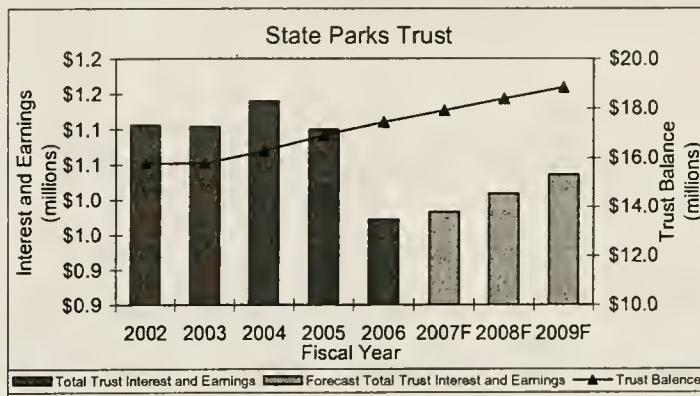
## Revenue Estimate Profile

### Parks Trust Interest

The estimated interest/income components include:

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Parks trust earnings from TFBP interest are expected to be \$946,197 in fiscal 2007, \$971,758 in fiscal 2008, and \$999,281 in fiscal 2009.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$22,925; \$22,577; and \$22,376 for fiscal years 2007 through 2009.

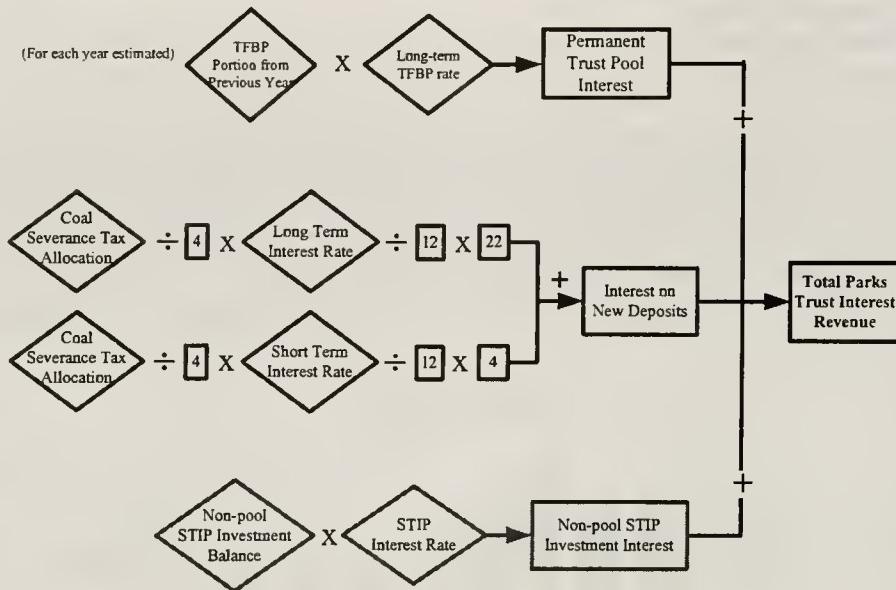
The 1.27 percent coal severance tax distribution to the parks trust is considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year. For the parks trust, new deposits are expected to earn interest of \$13,525; \$14,450; and \$14,298 for fiscal years 2007 through fiscal 2009, respectively.

When the estimates are combined, the interest earnings of the parks trust are expected to be \$982,647 in fiscal 2007, \$1,008,785 in fiscal 2008, and \$1,035,955 in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile Parks Trust Interest

### Forecast Methodology:



### Revenue Estimate Assumptions:

<u>t</u>	Total Rev. <u>Fiscal</u>	GF Rev. <u>Millions</u>	TFBP Interest <u>Millions</u>	STIP Interest <u>Millions</u>	Invested Balance <u>Millions</u>	Average Return <u>Rate</u>
Actual	2000	1.050621	0.000000			
Actual	2001	1.083002	0.000000			
Actual	2002	1.105962	0.000000	1.100417	0.005545	
Actual	2003	1.115050	0.000000	1.101342	0.002596	
Actual	2004	1.140447	0.000000	1.138429	0.002019	16.189248 0.070445
Actual	2005	1.100104	0.000000	1.095405	0.004699	16.772286 0.065591
Actual	2006	0.971827	0.000000	0.957207	0.014619	17.305023 0.056159
Forecast	2007	0.983000	0.000000	0.946197	0.036450	17.770023 0.055298
Forecast	2008	1.009000	0.000000	0.971758	0.037027	18.249023 0.055279
Forecast	2009	1.036000	0.000000	0.999281	0.036674	18.708023 0.055375

<u>t</u>	Net Coal Tax New Deposit <u>Fiscal</u>	New Deposit Long Term <u>Millions</u>	Non Pool STIP <u>Rate</u>	Non Pool STIP Bal <u>Millions</u>
Actual	2000	0.450466	6.3380%	5.4290% 0.301775
Actual	2001	0.410682	6.8850%	4.7390% 0.177151
Actual	2002	0.401498	6.3380%	2.5650% 0.308519
Actual	2003	0.000000	5.7290%	1.3600% 0.140270
Actual	2004	0.400617	5.3650%	1.2650% 0.328045
Actual	2005	0.477958	5.1950%	2.3890% 0.236285
Actual	2006	0.454933	5.2480%	4.0720% 0.469081
Forecast	2007	0.465000	5.4970%	4.6690% 0.469081
Forecast	2008	0.479000	5.7460%	4.5980% 0.469081
Forecast	2009	0.459000	5.9680%	4.5570% 0.469081

Total Rev. = Invested Balance \* Average Return

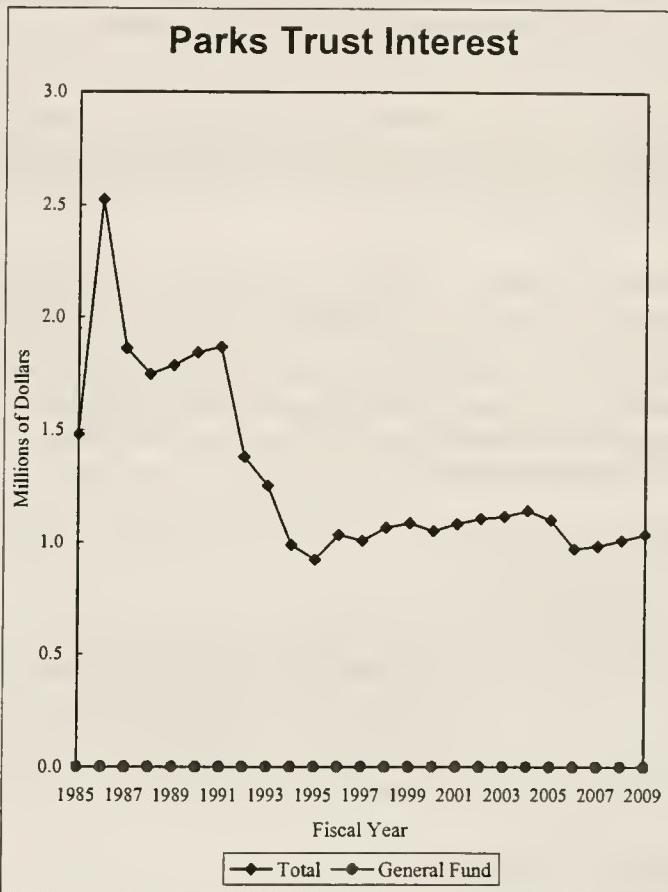
# Legislative Fiscal Division

## Revenue Estimate Profile

### Parks Trust Interest

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.480704	0.000000	Not App.
A 1986	2.523046	0.000000	Not App.
A 1987	1.860405	0.000000	Not App.
A 1988	1.745652	0.000000	Not App.
A 1989	1.785198	0.000000	Not App.
A 1990	1.842276	0.000000	Not App.
A 1991	1.867393	0.000000	Not App.
A 1992	1.380377	0.000000	Not App.
A 1993	1.251443	0.000000	Not App.
A 1994	0.988100	0.000000	Not App.
A 1995	0.921642	0.000000	Not App.
A 1996	1.033231	0.000000	Not App.
A 1997	1.006658	0.000000	Not App.
A 1998	1.066300	0.000000	Not App.
A 1999	1.086035	0.000000	Not App.
A 2000	1.050621	0.000000	Not App.
A 2001	1.083002	0.000000	Not App.
A 2002	1.105962	0.000000	Not App.
A 2003	1.115050	0.000000	Not App.
A 2004	1.140447	0.000000	Not App.
A 2005	1.100104	0.000000	Not App.
A 2006	0.971827	0.000000	Not App.
F 2007	0.983000	0.000000	Not App.
F 2008	1.009000	0.000000	Not App.
F 2009	1.036000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

#### Contacts:

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

**Revenue Description:** Lands granted by the federal government to the state for the benefit of public schools and various state institutions generate income. These lands produce revenue through rents or crop shares for agricultural purposes, royalties from the sale of mineral rights, and sales of timber. Income from certain portions of public school/institution lands has been designated for the support of the Pine Hills youth correctional facility. Thus, some of these funds are deposited into a component of the trust and legacy trust fund referred to as the Pine Hills trust, which generates interest earnings for the state. As of October 1, 1995, all fixed-income investments held by the state's major trust funds were transferred to a newly-created Trust Funds Bond Pool (TFBP). The majority of trust and legacy trust funds are invested as part of the TFBP. Some funds, however, are invested on a short-term basis in the state's Short Term Investment Pool (STIP). The state constitution prohibits the investment of the permanent trust in common stock.

In accordance with statute, 3.0 percent of Pine Hills interest and income is diverted to the Department of Natural Resources and Conservation (DNRC) to be used for resource development purposes. Senate Bill 48, passed by the 1999 legislature, provides for the diversion of the following funds for the purpose of funding the Trust Land Management Division in the DNRC: 1) mineral royalties; 2) revenues from the sale of easements; and 3) 5.0 percent of interest and income previously credited to the common school trust. In addition, a portion of timber sale revenue is diverted to fund a portion of DNRC's timber program. The amount of the money diverted from the Pine Hills trust reduces the growth of the trust fund balance and, hence, reduces the amount of distributable interest earnings.

#### Statute:

Tax Rate – NA

Distribution (MCA) – 17-3-1003

Other (MCA) –  
DNRC trust land administration diversion (77-1-109)  
DNRC timber sale program diversion (77-1-613)  
DNRC land bank administration diversion (77-2-362)  
DNRC resource development diversion (77-1-607)  
DNRC commercial lease diversion (77-1-905)  
Enabling Act, Sections 11 & 17

#### Applicable Tax Rate(s): N/A

**Distribution:** Interest and income from the trust, net of amounts to fund DNRC administration, is allocated to the Department of Corrections for support of the Pine Hills youth correctional facility.

#### Distribution Chart:



#### Collection Frequency: Monthly

#### % of Total General Fund Revenue: N/A

#### Revenue Estimate Methodology:

The estimate for interest and income from the Pine Hills trust is conducted with the goal of deriving the net amount of revenue that will be distributed to the trust beneficiary. This means that in addition to estimating the various distributable revenues from the

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

capital land grant trust, estimates of the various diversions that reduce the amount of distributable revenue must also be estimated. Therefore, the estimated amounts shown for this revenue source are not total revenues, but are net of diversions. Permanent revenue (revenue that is not distributed, but remains in the trust such as from timber and mineral royalties), is estimated as part of the entire Trust and Legacy account (T & L) and earnings are portioned to this trust according to the number of shares owned.

#### Data

Data from SABHRS provide a history of each individual interest and income revenue component from which estimates can be made. Department of Natural Resources and Conservation (DNRC) annual reports provide additional information such as mineral prices and production and timber estimates. Budget submissions on the state budgeting system (MBARS) provide anticipated amount of diversions.

#### Analysis

The estimate is derived by first estimating the distributable revenue components and then estimating the amounts of the diversions.

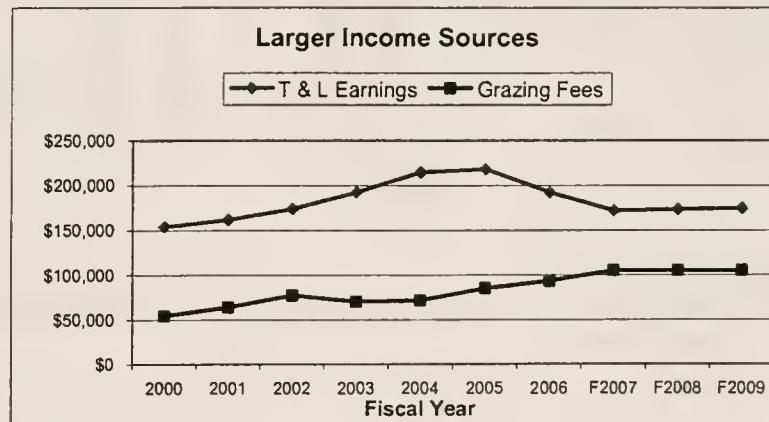
#### Revenue Components

1. **Trust and Legacy Earnings** (see the figure below) – The monetary assets of the trust are pooled with monetary assets of other land trusts in the T & L and invested by the Board of Investment in the trust funds bond pool. Based on the number of share each trust owns, a share of the earnings is deposited in each trust. For the Pine Hills trust, the actual FY 2006 share percentage of 0.7 is used. The estimation of the total pool earnings is a three stage process:

- Earnings from new deposits – New deposits in the pool are estimated to be \$6.5 million in FY 2007 and \$1.5 million each year thereafter. This additional money initially earns interest at the short-term rate (4.7 percent) before it is invested in a longer term investment (5.5 percent).
- Earnings from existing balance – The pool balance in FY 2006 was \$423.2 million. These funds have been invested in bonds purchased over the past several year and average slightly higher rates of return (5.63 percent) than more recently purchased bonds.
- Non-portfolio earnings – Money not invested in the trust funds bond pool earns interest at the short-term rate of 4.8 percent on a balance of \$3.9 million, the actual balance from FY 2006.

Once the total amount of the pool earnings has been estimated by summing the above three items, the Pine Hills trust share of 0.7 percent is applied.

2. **Grazing Fees** – Rates are tied to the price of cattle. With the currently high cattle prices, FY 2007 grazing rates were increased by \$0.75 per animal unit month. DNRC personnel anticipate that cattle prices will remain strong in FY 2007 increasing revenues above FY 2006 levels, but will soften in the next biennium (see the figure below). Based on this information and cattle futures markets, the FY 2007 estimate increases 12.65 percent from FY 2006 and stays constant for the 2009 biennium.

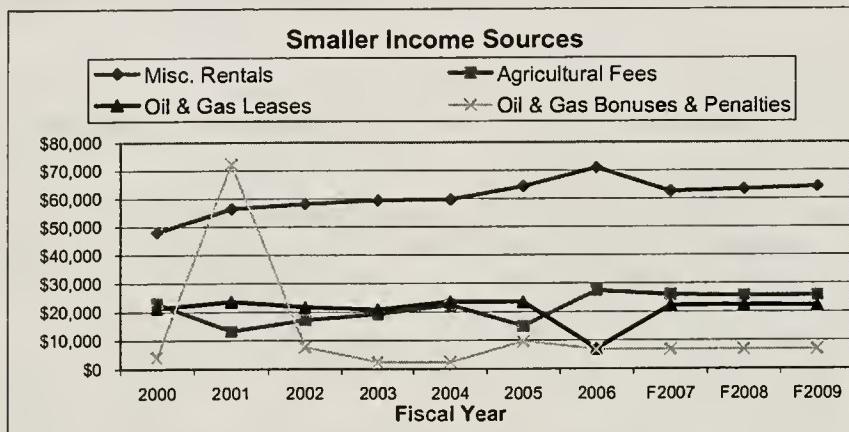


# Legislative Fiscal Division

## Revenue Estimate Profile

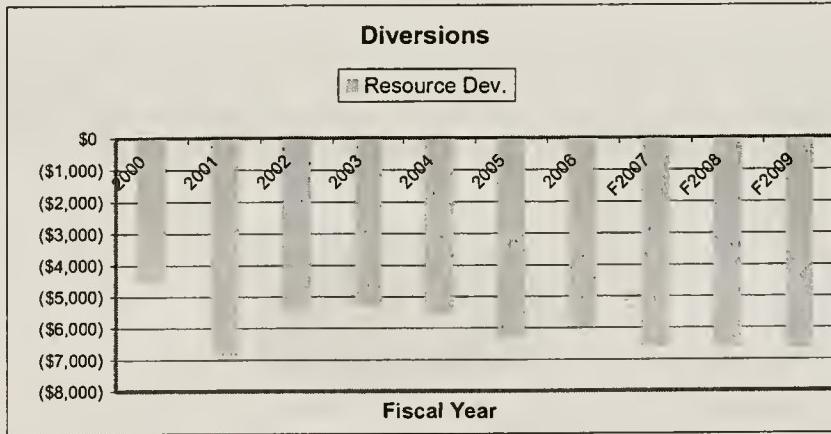
### Pine Hills Interest and Income

3. Miscellaneous Rentals - These are small income components that are combined and estimated together. For each fiscal year estimated, the estimate is based on the average annual growth rate of the previous four years with the highest and lowest amounts removed.
4. Agricultural Fees – Fees are based on a crop share basis. Although prices are currently high, production is down. DNRC personnel anticipate that prices will remain strong in the next biennium, but overall revenue will decline slightly from FY 2006 levels (see the figure below). Based on this information and crop futures markets, revenue declines 5.4 percent in FY 2007, declines 1.1 percent in FY 2008 and increases 0.6 percent in FY 2009.
5. Oil & Gas Leases – For each fiscal year estimated, the estimate is the average of the previous three years.
6. Oil & Gas Bonuses & Penalties - For each fiscal year estimated, the estimate continues the amount from FY 2006.



#### Diversions

Diversions fund operational costs in DNRC, but reduce the amount of revenue distributed to the trust beneficiaries (see the figure below). To determine future diversion amounts, DNRC's present law budget amounts are used. The only diversion that affects distributable revenue is the three percent of all income from the trust that is diverted to an account to fund resource development on the trust lands.



#### Adjustments and Distribution

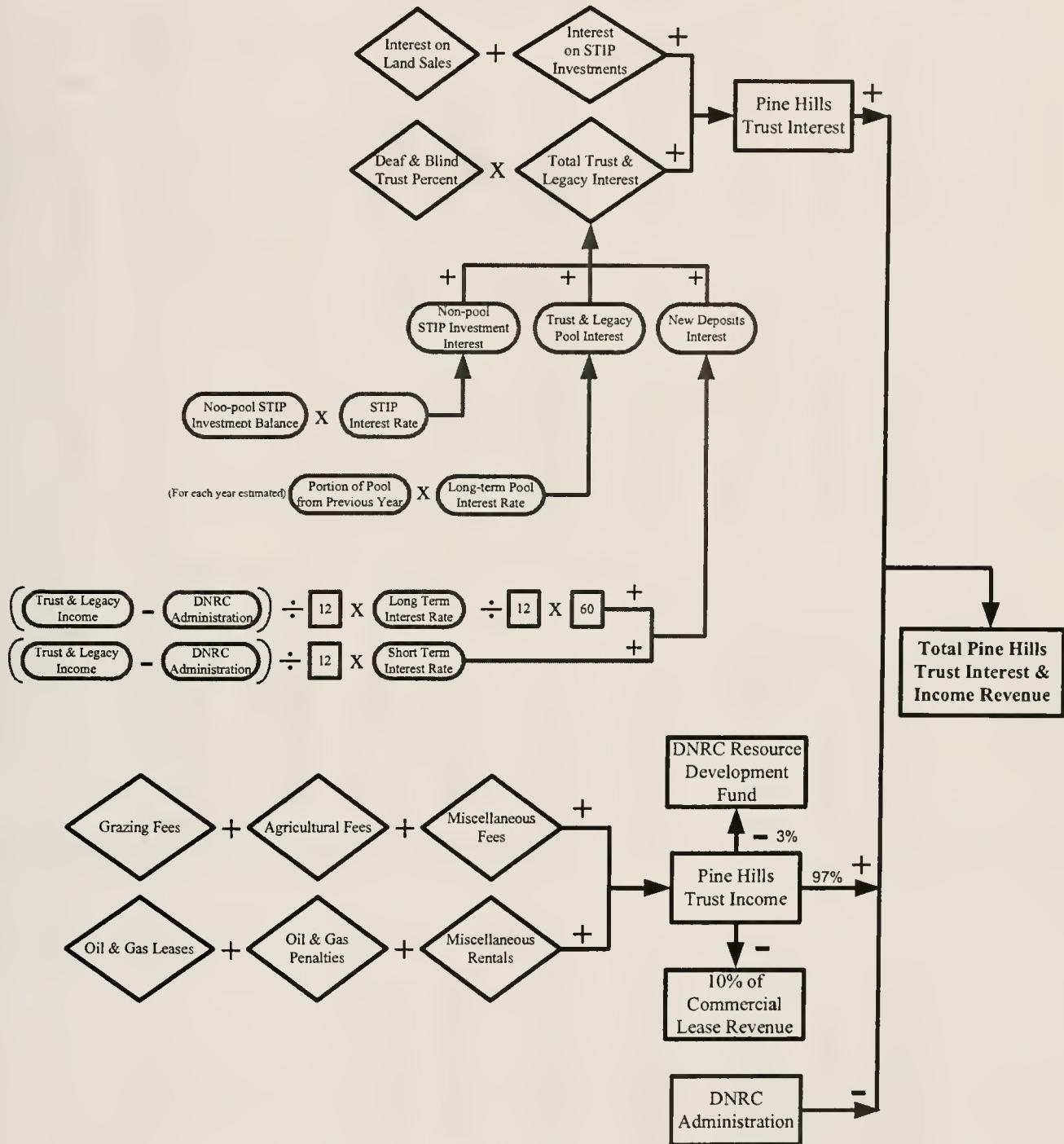
Once total revenue and total diversions have been estimated, the net amounts are distributed 100 percent to the state special revenue fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Pine Hills Interest and Income

#### Revenue Estimate Assumptions:

	<u>t</u>	Total Rev.	GF Rev.	TFBP	STIP	Pinc
	Fiscal	Millions	Millions	Interest Millions	Interest Millions	Hills Share T&L
Actual	2000	0.304760	0.000000			0.006048
Actual	2001	0.390483	0.000000			0.006167
Actual	2002	0.355497	0.000000	29.627056	0.102664	0.005835
Actual	2003	0.364450	0.000000	29.146744	0.068370	0.006580
Actual	2004	0.394224	0.000000	30.087011	0.053502	0.007114
Actual	2005	0.415343	0.000000	28.106231	0.269698	0.007114
Actual	2006	0.396937	0.000000	24.428206	0.408162	0.007114
Forecast	2007	0.387000	0.000000	23.781663	0.363942	0.007114
Forecast	2008	0.389000	0.000000	24.148202	0.225490	0.007114
Forecast	2009	0.391000	0.000000	24.280867	0.225102	0.007114

	<u>t</u>	Trust Income	Trust Land	New Deposit	Noa Pool	Non Pool
	Fiscal	New Deposit Millions	Admin. Millions	Long Term Rate	STIP Rate	STIP Bal Millions
Actual	2000	10.969295		7.0160%	5.4290%	11.676486
Actual	2001	12.667780	0.000000	6.8850%	4.7390%	6.984553
Actual	2002	2.348339	0.000000	6.3380%	2.5650%	7.334239
Actual	2003	2.363355	0.000000	5.7290%	1.3600%	6.242273
Actual	2004	2.971526	0.000000	5.3650%	1.2650%	7.049634
Actual	2005	1.457756	0.000000	5.1950%	2.3890%	12.106697
Actual	2006	1.425106	0.000000	5.2480%	4.0720%	3.862666
Forecast	2007	6.537106	0.000000	5.4970%	4.6690%	3.862666
Forecast	2008	1.425106	0.000000	5.7460%	4.5980%	3.862666
Forecast	2009	1.425106	0.000000	5.9680%	4.5570%	3.862666

	<u>t</u>	Grazing	Agriculture	Misc.	O&G Lease	O&G Bonus	O&G Penalty	Misc.
	Fiscal	Millions	Millions	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.054682	0.022855	0.047965	0.021231	0.000000	0.003895	0.000000
Actual	2001	0.063912	0.013002	0.056236	0.023526	0.066599	0.005510	0.000000
Actual	2002	0.077707	0.016967	0.058062	0.021550	0.000000	0.007482	0.000000
Actual	2003	0.070606	0.019163	0.059332	0.020743	0.000000	0.002359	0.000000
Actual	2004	0.071968	0.022278	0.059705	0.023583	0.000000	0.002283	0.000000
Actual	2005	0.085325	0.014803	0.064296	0.023390	0.000590	0.008881	0.000000
Actual	2006	0.093321	0.027332	0.070787	0.006895	0.002960	0.003690	0.000000
Forecast	2007	0.105126	0.025856	0.062436	0.022088	0.002960	0.003690	0.000000
Forecast	2008	0.105126	0.025572	0.063311	0.022259	0.002960	0.003690	0.000000
Forecast	2009	0.105126	0.025725	0.064107	0.022006	0.002960	0.003690	0.000000

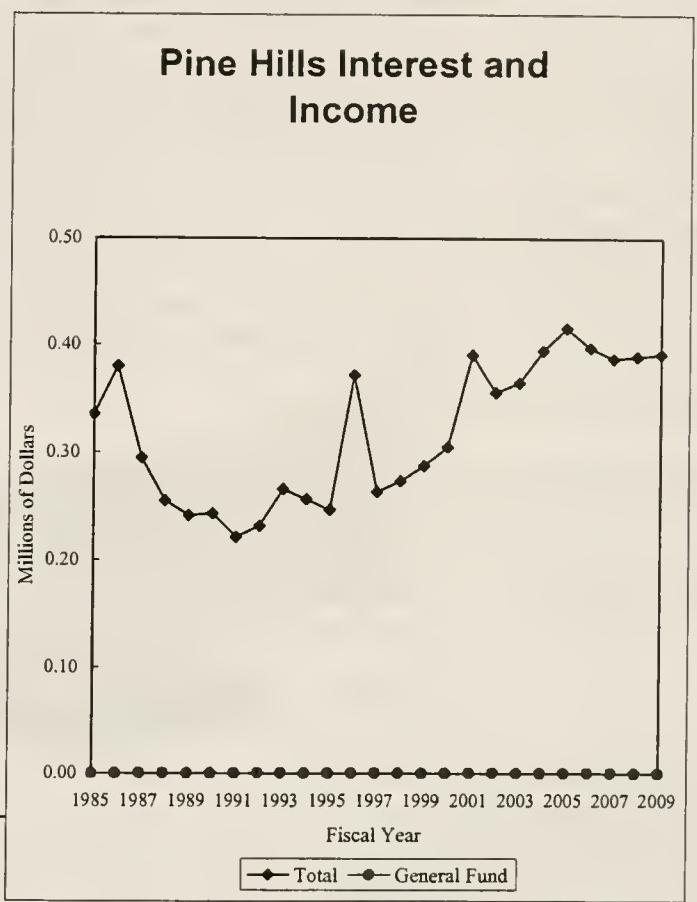
	<u>t</u>	Int. Land	Int. STIP	Int. Trust	Timber	Res. Dev.
	Fiscal	Millions	Millions	Millions	Millions	Millions
Actual	2000	0.000000	0.000086	0.154047	0.000000	-0.004521
Actual	2001	0.000000	0.000000	0.161698	0.000000	-0.006864
Actual	2002	0.000000	0.000000	0.173729	0.000000	-0.005450
Actual	2003	0.000000	0.000000	0.192247	0.000000	-0.005326
Actual	2004	0.000000	0.000000	0.214407	0.000000	-0.005561
Actual	2005	0.000000	0.000000	0.218058	0.000000	-0.006300
Actual	2006	0.000000	0.000000	0.191952	0.000000	-0.005931
Forecast	2007	0.000000	0.000000	0.171772	0.000000	-0.006665
Forecast	2008	0.000000	0.000000	0.173394	0.000000	-0.006688
Forecast	2009	0.000000	0.000000	0.174335	0.000000	-0.006708

Total Rev. = Grazing + Agriculture + O&G Lease + O&G Bonus + O&G Penalty + Misc. + Int. Land + Int. Stip + Int. Trust + Timber + Res. Dev.

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Pine Hills Interest and Income**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.335136	0.000000	Not App.
A 1986	0.379750	0.000000	Not App.
A 1987	0.294555	0.000000	Not App.
A 1988	0.254980	0.000000	Not App.
A 1989	0.241441	0.000000	Not App.
A 1990	0.243307	0.000000	Not App.
A 1991	0.221278	0.000000	Not App.
A 1992	0.231828	0.000000	Not App.
A 1993	0.266031	0.000000	Not App.
A 1994	0.256412	0.000000	Not App.
A 1995	0.246726	0.000000	Not App.
A 1996	0.371743	0.000000	Not App.
A 1997	0.263606	0.000000	Not App.
A 1998	0.273282	0.000000	Not App.
A 1999	0.287506	0.000000	Not App.
A 2000	0.304760	0.000000	Not App.
A 2001	0.390483	0.000000	Not App.
A 2002	0.355497	0.000000	Not App.
A 2003	0.364450	0.000000	Not App.
A 2004	0.394224	0.000000	Not App.
A 2005	0.415343	0.000000	Not App.
A 2006	0.396937	0.000000	Not App.
F 2007	0.387000	0.000000	Not App.
F 2008	0.389000	0.000000	Not App.
F 2009	0.391000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight, Department of Natural Resources and Conservation

**Contacts:** Department of Natural Resources and Conservation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

**Revenue Description:** The 1999 legislature (Senate Bill 220) created the Treasure State Endowment (TSE) Regional Water System Fund within the permanent coal tax trust fund. The fund receives 12.5 percent of total coal severance tax collections through June 2016. Interest earned on the fund is used to provide matching funds to plan and construct regional drinking water systems in Montana and fund state and local entity administrative expenses. Except for administrative expenses, each state dollar must be matched equally by local funds. The funds in the account are further restricted to finance regional drinking water systems from the waters of the Tiber reservoir and the Missouri River within specific geographic areas. The program terminates the end of June 2016.

#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 17-5-703 (4b); use of earnings (90-6-715)  
Date Due (MCA) – monthly (17-5-703(4d))

**Applicable Tax Rate(s):** NA

**Distribution:** Interest earnings are deposited to a state special revenue fund and appropriated to the Department of Natural Resources and Conservation to fund eligible projects and pay administrative expenses.

#### Distribution Chart:



**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the regional water trust are obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The regional water trust was created from distributions of the coal severance tax. The regional water trust was formed in 2000 as a sub-trust to the permanent coal trust. The Constitution requires that 50 percent of the coal severance tax collections be distributed to the coal trust, and 25 percent of that distribution (after the water bond debt service obligation is met) or 12.5 percent of total coal severance tax revenues is distributed to the regional water trust. The principal or corpus of the regional water trust now stands at \$30.7 million. Estimates of future deposits to the trust are developed in the coal severance tax projection and are expected to be \$4.6 million in fiscal 2007, \$4.7 million in fiscal 2008, and \$4.3 million in fiscal 2009.

To forecast the regional water trust interest earnings, each of three interest/income components are estimated independently and combined.

# Legislative Fiscal Division

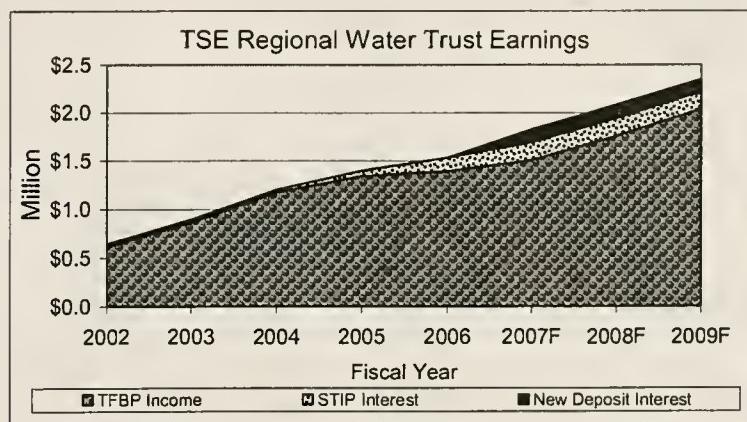
## Revenue Estimate Profile

### Regional Water Trust Interest

The estimated interest/income components include:

- Trust fund bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. Regional water trust earnings from TFBP interest are expected to be \$1.50 million in fiscal 2007, \$1.75 million in fiscal 2008, and \$2.03 million in fiscal 2009.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$186,972; \$184,130; and \$182,489 for fiscal years 2007 through 2009, respectively.

Coal severance tax distributions to the regional water trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year. For the regional water trust, new deposits are expected to earn interest of \$132,920; \$143,054; and \$134,634 for fiscal years 2007 through fiscal 2009, respectively.

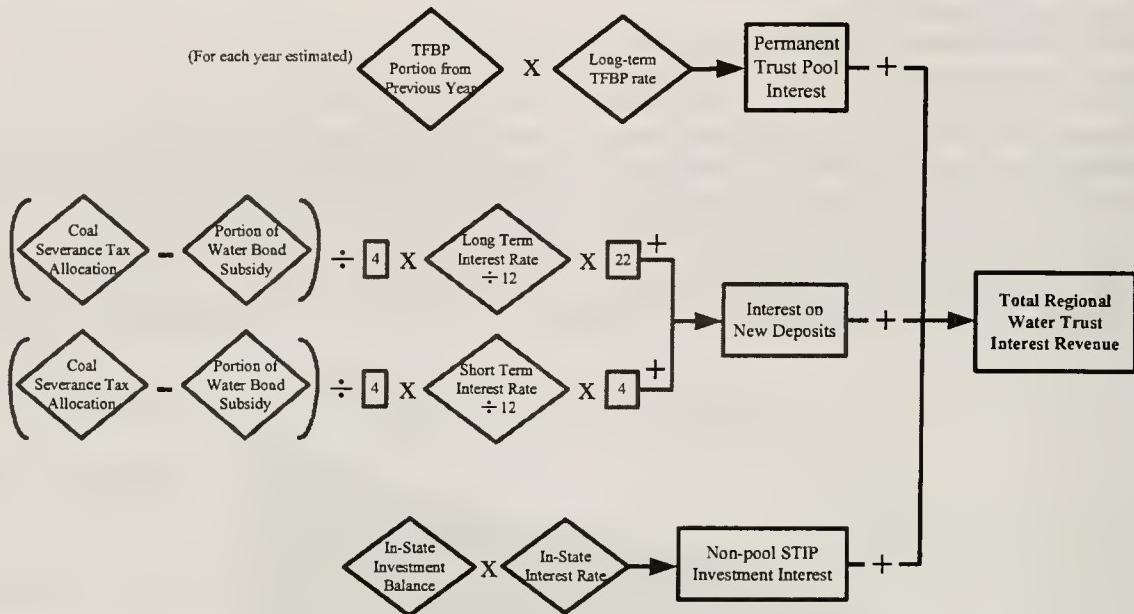
When the estimates are combined, the interest earnings of the regional water trust are expected to be \$1.82 million in fiscal 2007, \$2.08 million in fiscal 2008, and \$2.35 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Regional Water Trust Interest

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>t</u> Fiscal	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	TFBP Interest <u>Millions</u>	STIP Interest <u>Millions</u>	Loan Interest <u>Millions</u>	Invested Balance <u>Millions</u>	Average Return Rate
Actual	2000	0.032058	0.000000					
Actual	2001	0.370163	0.000000					
Actual	2002	0.643133	0.000000	0.610527	0.032606	0.000000		
Actual	2003	0.894258	0.000000	0.864661	0.029598	0.000000		
Actual	2004	1.201061	0.000000	1.173660	0.027401	0.000000	20.942460	0.057351
Actual	2005	1.396302	0.000000	1.340362	0.055941	0.000000	24.913396	0.056046
Actual	2006	1.527443	0.000000	1.390830	0.136614	0.000000	30.573159	0.049960
Forecast	2007	1.823000	0.000000	1.503235	0.319892	0.000000	35.143159	0.051877
Forecast	2008	2.082000	0.000000	1.754903	0.327184	0.000000	39.885159	0.052202
Forecast	2009	2.348000	0.000000	2.030587	0.317123	0.000000	44.207159	0.053107

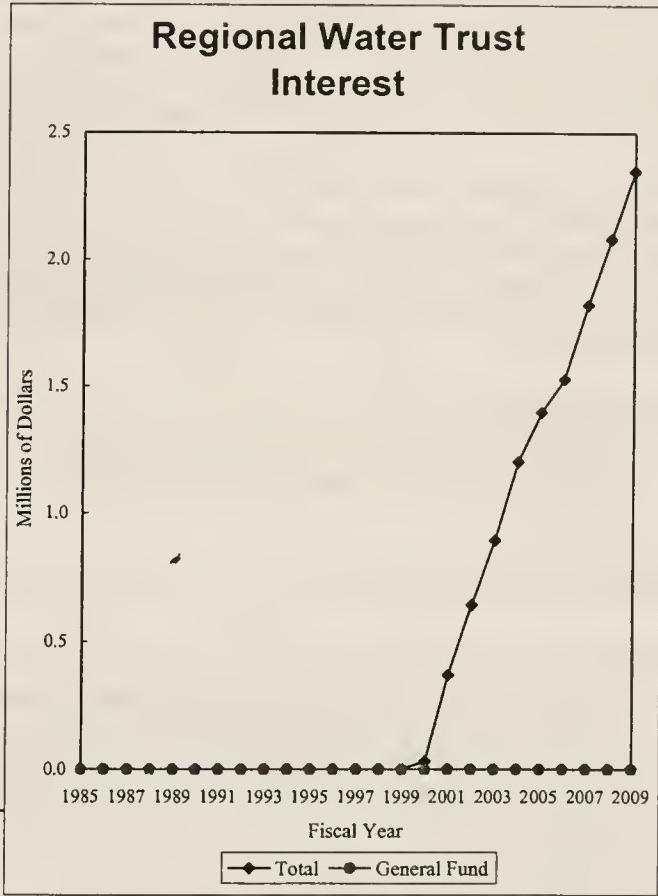
	<u>t</u> Fiscal	Net Coal Tax New Deposit <u>Millions</u>	New Deposit Long Term <u>Rate</u>	Non Pool STIP <u>Rate</u>	Non Pool STIP Bal <u>Millions</u>	-
Actual	2000	4.433724	6.3380%	5.4290%	3.441977	
Actual	2001	4.042147	6.8850%	4.7390%	0.845223	
Actual	2002	3.951756	6.3380%	2.5650%	1.578601	
Actual	2003	3.677943	5.7290%	1.3600%	1.894047	
Actual	2004	3.943085	5.3650%	1.2650%	2.693965	
Actual	2005	4.704314	5.1950%	2.3890%	2.765447	
Actual	2006	4.477691	5.2480%	4.0720%	3.825680	
Forecast	2007	4.570000	5.4970%	4.6690%	3.825680	
Forecast	2008	4.742000	5.7460%	4.5980%	3.825680	
Forecast	2009	4.322000	5.9680%	4.5570%	3.825680	

Total Rev. = Invested Balance \* Average Return

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Regional Water Trust Interest**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	0.000000	0.000000	Not App.
A 1993	0.000000	0.000000	Not App.
A 1994	0.000000	0.000000	Not App.
A 1995	0.000000	0.000000	Not App.
A 1996	0.000000	0.000000	Not App.
A 1997	0.000000	0.000000	Not App.
A 1998	0.000000	0.000000	Not App.
A 1999	0.000000	0.000000	Not App.
A 2000	0.032058	0.000000	Not App.
A 2001	0.370163	0.000000	Not App.
A 2002	0.643133	0.000000	Not App.
A 2003	0.894258	0.000000	Not App.
A 2004	1.201061	0.000000	Not App.
A 2005	1.396302	0.000000	Not App.
A 2006	1.527443	0.000000	Not App.
F 2007	1.823000	0.000000	Not App.
F 2008	2.082000	0.000000	Not App.
F 2009	2.348000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:**

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

**Revenue Description:** Article IX, Section 2 of the Montana Constitution and Title 15, Chapter 38, MCA, requires that certain resource extraction taxes, as determined by the legislature, be placed in a trust. The principal of the Resource Indemnity Trust (RIT) "shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000), guaranteed by the state against loss or diversion." Once the principal of the trust reaches \$100.0 million, any additional tax deposits may be appropriated. Interest earnings on the RIT are to be spent to improve the total environment and rectify damage to the environment. It is also the legislature's intent that interest earnings not be appropriated for general operating expenses of state agencies.

Prior to July 1, 2002 when the Governor by executive order certified to the Secretary of State that the RIT balance had reached \$100 million, the RIT had received revenue from the resource indemnity and ground water assessment tax and the oil and gas tax. Because these allocations of revenue are no longer deposited to the trust, the trust balance will remain constant and interest earnings will be dependent only on the interest rates. However, any excess revenue in the ground water assessment account at the end of a fiscal year causes an amount equal to excess to be deposited to the RIT from the account's allocation of RIGWA tax or RIT interest earnings.

#### **Statutory Reference:**

Tax Rate – NA

Distribution (MCA) – Montana Constitution, Article IX, Section 2; 15-38-202(2), use of earnings (15-38-203)

Date Due – NA

#### **Applicable Tax Rate(s):** N/A

**Distribution:** Statute allocates RIT interest earnings in the following manner:

- 1) at the beginning of the biennium, an amount not to exceed \$175,000 to the environmental contingency fund to bring the balance up to \$750,000. Money in this account is statutorily appropriated for unanticipated public needs arising from certain disasters and emergencies, which may be used upon authorization of the Governor;
- 2) at the beginning of the biennium, an amount not to exceed \$50,000 to the oil and gas mitigation account to bring the balance up to \$200,000. Money in this account is statutorily appropriated to the Board of Oil and Gas Conservation for the cost of plugging wells that have been abandoned and for which no responsible party can be found;
- 3) at the beginning of the biennium, \$500,000 to the water storage state special revenue account to provide loans and grants for water storage projects;
- 4) \$2.0 million annually to the renewable resource grant and loan program state special revenue account for distribution as grants;
- 5) \$1.5 million annually to the reclamation and development grant state special revenue account for distribution as grants;
- 6) \$500,000 annually through fiscal 2009 to the future fisheries program for bull trout and cutthroat trout recovery;
- 7) \$300,000 annually to the ground water assessment account to improve ground water management and protection;
- 8) \$240,000 annually to MSU Northern for the environmental science water quality instructional programs. This amount is statutorily appropriated; and
- 9) of the remaining RIT interest earnings: a) 30 percent to the renewable resource grant and loan account for program and administrative costs; b) 35 percent to the reclamation and development grant account for program and administrative costs; c) 26 percent to the hazardous waste/CERCLA account for superfund activities; and d) 9.0 percent to the environmental quality protection fund for additional clean-up activities.

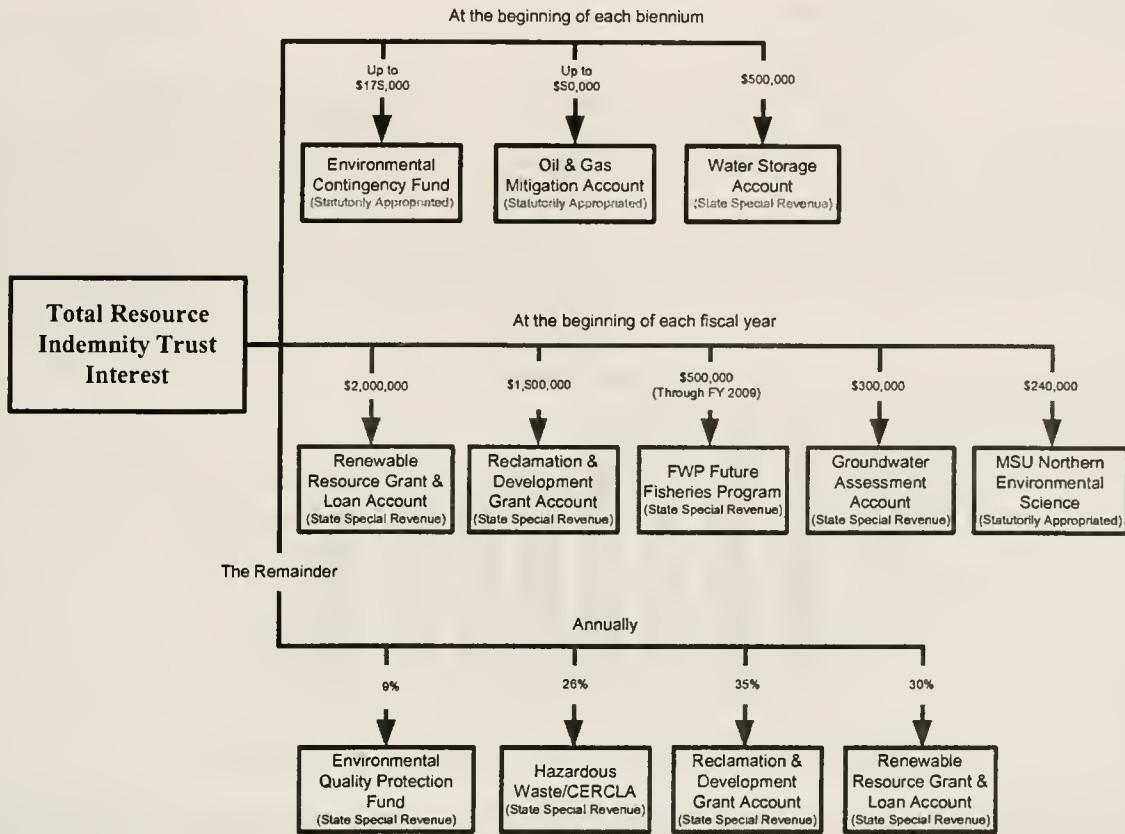
The Department of Natural Resources and Conservation administers two of the RIT interest accounts which are used for grants, loans, and administrative costs: the renewable resource grant and loan program account and the reclamation and development grant account. These accounts also receive funding from other sources. All grants and loans made from these accounts require legislative approval. Grants must also be appropriated.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

Distribution Chart:



**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the resource indemnity (RIT) trust are obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

##### Analysis

The RIT trust, formed in the mid 1970's, was created from distributions of the resource indemnity and ground water assessment tax (RIGWA) and the oil and gas tax. The resource indemnity trust reached its constitutionally required principal of \$100 million in fiscal 2002. As a result, the trust no longer receives new income from tax distributions. The trust does receive any excess revenue available from collections of the RIGWA tax at the end of the fiscal year. The principal or corpus of the resource indemnity trust now stands at \$100.023 million, as shown by the line in the figure below. No new deposits are anticipated for the trust.

To forecast the resource indemnity trust interest earnings, each of three interest/income components are estimated independently and combined. The estimated interest/income components include:

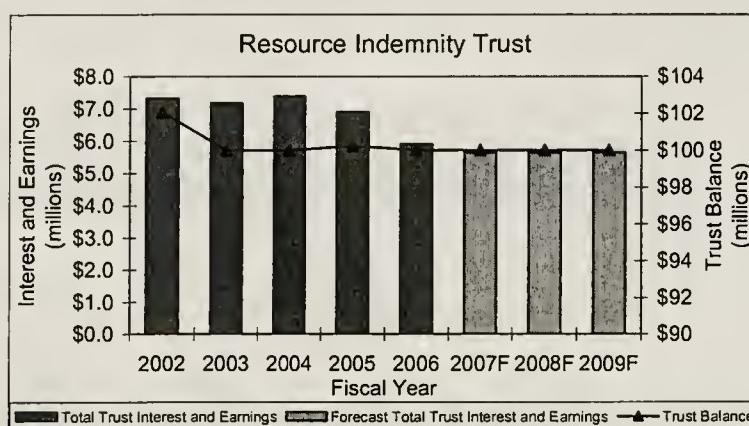
# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits (if anticipated)

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. RIT trust earnings from TFBP interest are expected to be \$5.62 million in fiscal 2007, \$5.622 million in fiscal 2008, and \$5.63 million in fiscal 2009.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$24,753; \$24,377; and \$24,160 for fiscal years 2007 through 2009.

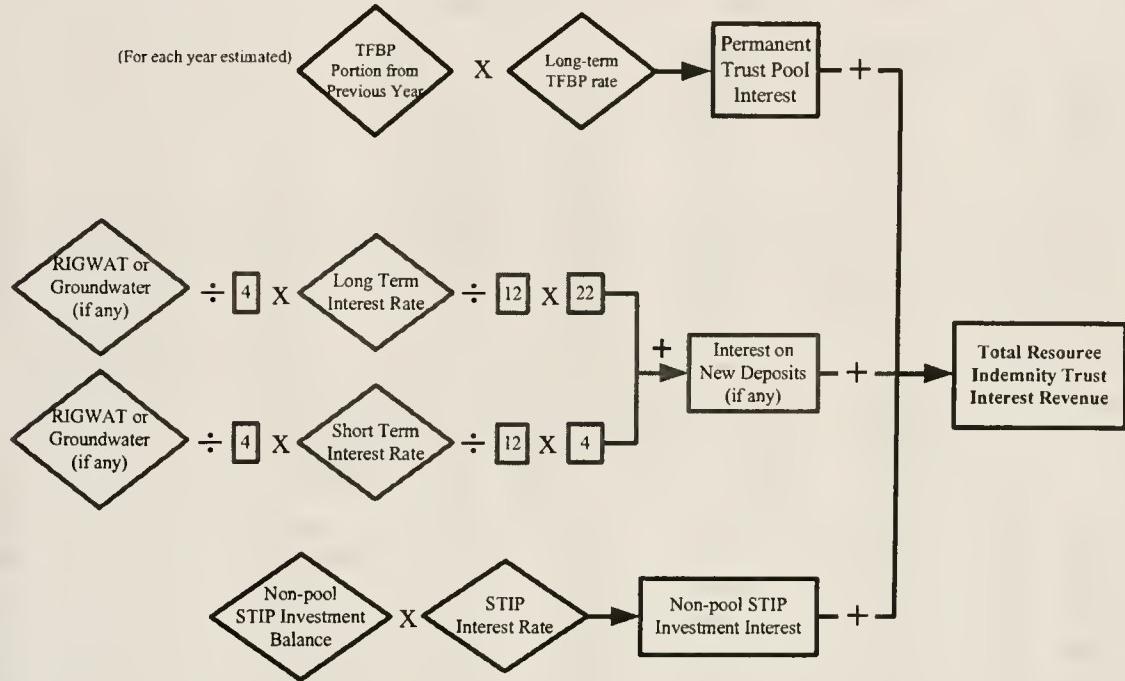
As mentioned earlier, no new deposits are anticipated for the 2009 biennium. When the estimates are combined, the interest earnings of the RIT trust are expected to be \$5.64 million in fiscal 2007, \$5.65 million in fiscal 2008, and \$5.66 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

<u>t</u>	<u>Fiscal</u>	<u>Total Rev.</u> <u>Millions</u>	<u>GF Rev.</u> <u>Millions</u>	<u>TFBP</u> <u>Interest</u> <u>Millions</u>	<u>STIP</u> <u>Interest</u> <u>Millions</u>	<u>Invested</u> <u>Balance</u> <u>Millions</u>	<u>Average</u> <u>Return</u> <u>Rate</u>
Actual	2000	9.184060	0.000000				
Actual	2001	7.305993	0.000000				
Actual	2002	7.320563	0.000000	7.286083	0.034480		
Actual	2003	7.174342	0.000000	7.161271	0.013072		
Actual	2004	7.380242	0.000000	7.375168	0.005073	100.644275	0.073330
Actual	2005	6.247097	0.000000	6.889636	0.012289	100.909672	0.068397
Actual	2006	5.915563	0.000000	5.896878	0.018684	100.506457	0.058858
Forecast	2007	5.645000	0.000000	5.620099	0.024753	100.506457	0.056164
Forecast	2008	5.646000	0.000000	5.621799	0.024377	100.506457	0.056177
Forecast	2009	5.658000	0.000000	5.633799	0.024160	100.506457	0.056294

# Legislative Fiscal Division

## Revenue Estimate Profile

### Resource Indemnity Trust Interest

	<u>Net Tax New Deposit</u>	<u>New Deposit Long Term Rate</u>	<u>Non Pool STIP Rate</u>	<u>Non Pool STIP Bal Millions</u>
<u>Fiscal</u>	<u>Millions</u>	<u>Rate</u>	<u>Rate</u>	<u>Millions</u>
Actual 2000	3.391472	6.3380%	5.4290%	3.712675
Actual 2001	2.205880	6.8850%	4.7390%	1.557391
Actual 2002	1.588631	6.3380%	2.5650%	2.175871
Actual 2003	0.000000	5.7290%	1.3600%	0.740511
Actual 2004	-0.000188	5.3650%	1.2650%	0.644299
Actual 2005	0.252454	5.1950%	2.3890%	0.909696
Actual 2006	0.000000	5.2480%	4.0720%	0.506481
Forecast 2007	0.000000	5.4970%	4.6690%	0.506481
Forecast 2008	0.000000	5.7460%	4.5980%	0.506481
Forecast 2009	0.000000	5.9680%	4.5570%	0.506481

	<u>Hazardous Waste Millions</u>	<u>Environmental Quality Millions</u>	<u>Renewable Resource Millions</u>	<u>Reclamation Development Millions</u>	<u>Environmental Contingency Millions</u>
<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual 2000	0.941319	0.319852	3.721445	3.176444	0.175000
Actual 2001	0.796322	0.274126	3.259425	2.676120	0.000000
Actual 2002	0.534446	0.185001	3.356669	2.219447	0.175000
Actual 2003	0.678555	0.231326	3.026507	2.587954	0.000000
Actual 2004	0.564353	0.192393	2.894137	2.354359	0.175000
Actual 2005	0.474561	0.161782	2.790060	2.170694	0.000000
Actual 2006	0.169146	0.058551	2.435169	1.727697	0.175000
Forecast 2007	0.287300	0.099450	2.571500	1.886750	0.000000
Forecast 2008	0.099060	0.034290	2.354300	1.633350	0.175000
Forecast 2009	0.290680	0.100620	2.575400	1.891300	0.000000

	<u>Water Storage Millions</u>	<u>Oil &amp; Gas Receipts Millions</u>	<u>FWP Receipts Millions</u>	<u>Groundwater Receipts Millions</u>
<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual 2000	0.500000	0.050000	0.000000	0.300000
Actual 2001	0.000000	0.000000	0.000000	0.300000
Actual 2002	0.500000	0.050000	0.000000	0.300000
Actual 2003	0.000000	0.000000	0.350000	0.300000
Actual 2004	0.500000	0.050000	0.350000	0.300000
Actual 2005	0.000000	0.000000	0.350000	0.300000
Actual 2006	0.500000	0.050000	0.500000	0.300000
Forecast 2007	0.000000	0.000000	0.500000	0.300000
Forecast 2008	0.500000	0.050000	0.500000	0.300000
Forecast 2009	0.000000	0.000000	0.500000	0.300000

Total Rev. = Invested Balance \* Average Return

# Legislative Fiscal Division

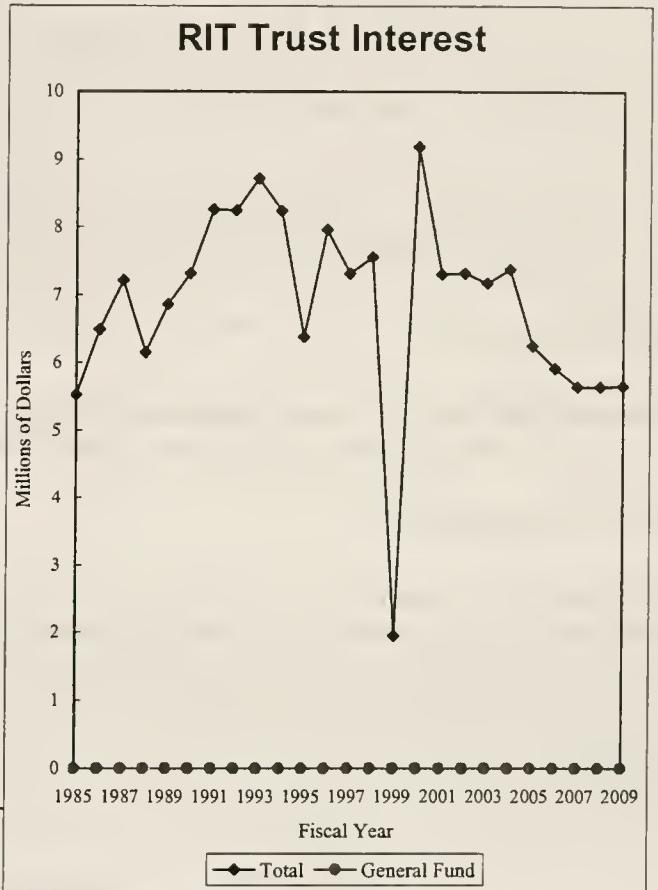
## Revenue Estimate Profile

### Resource Indemnity Trust Interest

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	5.526373	0.000000	Not App.
A 1986	6.487967	0.000000	Not App.
A 1987	7.208545	0.000000	Not App.
A 1988	6.149783	0.000000	Not App.
A 1989	6.858164	0.000000	Not App.
A 1990	7.316096	0.000000	Not App.
A 1991	8.260874	0.000000	Not App.
A 1992	8.245914	0.000000	Not App.
A 1993	8.715126	0.000000	Not App.
A 1994	8.239056	0.000000	Not App.
A 1995	6.380294	0.000000	Not App.
A 1996	7.959843	0.000000	Not App.
A 1997	7.318083	0.000000	Not App.
A 1998	7.555620	0.000000	Not App.
A 1999	1.948278	0.000000	Not App.
A 2000	9.184060	0.000000	Not App.
A 2001	7.305993	0.000000	Not App.
A 2002	7.320563	0.000000	Not App.
A 2003	7.174342	0.000000	Not App.
A 2004	7.380242	0.000000	Not App.
A 2005	6.247097	0.000000	Not App.
A 2006	5.915563	0.000000	Not App.
F 2007	5.645000	0.000000	Not App.
F 2008	5.646000	0.000000	Not App.
F 2009	5.658000	0.000000	Not App.

\* Includes -\$5,583,174 in unrealized losses as booked on the state accounting system



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:**

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement Trust Interest

**Revenue Description:** Due to passage of Montana Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate not less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. Due to passage of Initiative 146 by the electorate in November 2002, 32 percent of the tobacco settlement money is to fund tobacco prevention and 17 percent is to fund the Children's Health Insurance Program. As amended in SB 485 by the 2003 legislature, money from these allocations can also be used to fund human services programs and to match federal Medicaid funds through fiscal 2005. The remaining 11 percent of the money is deposited to the general fund. Interest earnings from the trust can only be used for tobacco disease prevention programs and programs providing benefits, services, or coverage that are related to the health care needs of Montanans. The earnings cannot be used to replace state or federal money used to fund tobacco disease prevention programs and state programs that existed on December 31, 1999, providing benefits, services, or coverage of the health care needs of Montanans.

#### Statutory Reference:

Tax Rate – NA

Distribution (MCA) – Montana Constitution Article XII, Section 4; 17-6-601; 17-6-603

Date Due – Interest deposits are mostly made monthly, but none in July and two in June

#### Applicable Tax Rate(s): NA

#### Distribution:

 Interest earnings from the trust fund are distributed:

1. 90 percent to a state special revenue account for appropriation by the legislature for disease prevention programs and state programs providing benefits, services, or coverage that are related to the health care needs of the people of Montana; and
2. 10 percent to the tobacco settlement trust fund.

#### Distribution Chart:



**Collection Frequency:** Trust interest earnings are deposited monthly to the state special revenue account and the trust.

**% of Total General Fund Revenue:** N/A

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement Trust Interest

#### Revenue Estimate Methodology:

##### Data

The data used to estimate interest earnings from the tobacco settlement trust are obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

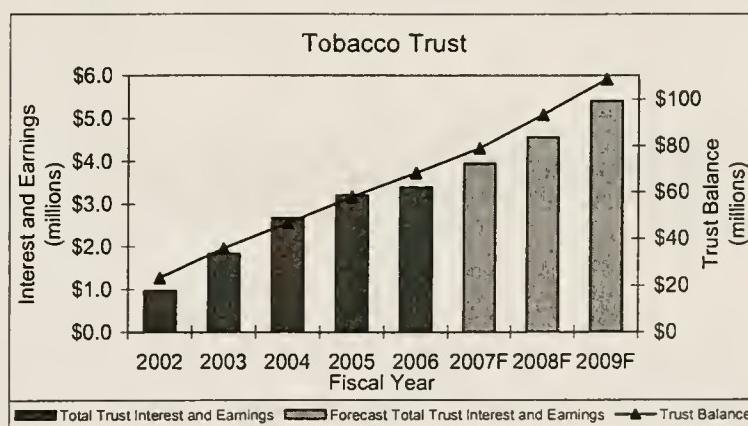
##### Analysis

The tobacco settlement trust, formed in 2000, was created from distributions of the tobacco settlement funds. In 2000, as required by constitutional amendment, the state began depositing 40 percent of the tobacco settlement funds into a trust. As required in statute, ten percent of the trust earnings must be deposited in the trust. The principal or corpus of the tobacco trust now stands at \$68.2 million, as shown by the line in the figure below. New deposits are expected to be \$10.6 million in fiscal 2007, \$14.4 million in fiscal 2008, and \$15.0 million in fiscal 2009.

To forecast the tobacco settlement trust interest earnings, each of four interest/income components are estimated independently and combined. The estimated interest/income components include:

- Trust funds bond pool (TFBP)
- Short-term investment pool (STIP)
- New trust deposits
- Other interest

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal 2007 years through 2009, respectively. Tobacco settlement trust earnings from TFBP interest are expected to be \$3.78 million in fiscal 2007, \$4.36 million in fiscal 2008, and \$5.20 million in fiscal 2009.



STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on

# Legislative Fiscal Division

## Revenue Estimate Profile

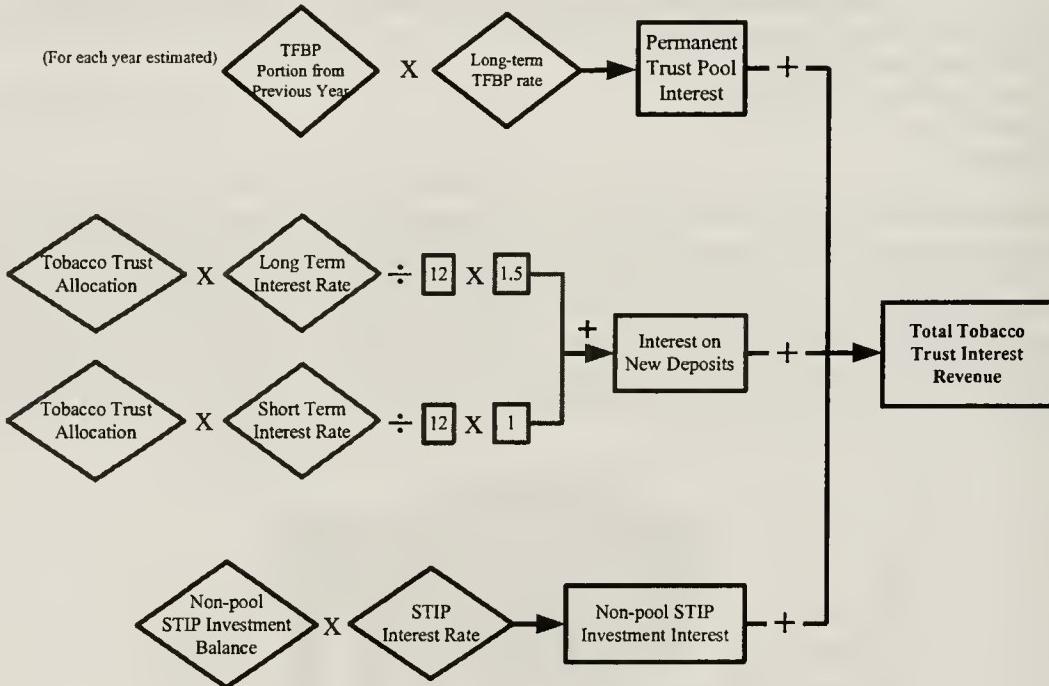
### Tobacco Settlement Trust Interest

Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$44,813; \$44,132; and \$43,738 for fiscal years 2007 through 2009.

The 40 percent distribution of tobacco settlement funds and 10 percent of retained interest earnings are considered new deposits in the tobacco settlement trust. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the tobacco settlement funds, they are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year. For the tobacco settlement trust, new deposits are expected to earn interest of \$114,089; \$158,759; and \$168,705 for fiscal years 2007 through 2009, respectively.

When the estimates are combined, the interest earnings of the tobacco trust are expected to be \$3.94 million in fiscal 2007, \$4.57 million in fiscal 2008, and \$5.42 million in fiscal 2009.

#### **Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement Trust Interest

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	TFBP Interest <u>Millions</u>	STIP Interest <u>Millions</u>	90 Percent Interest <u>Millions</u>	10 Percent Interest <u>Millions</u>
Actual	2000	0.000000	0.000000				
Actual	2001	0.239625	0.000000				
Actual	2002	0.967687	0.000000	0.955252	0.012435		
Actual	2003	1.830214	0.000000	1.816256	0.013958	1.647000	0.183000
Actual	2004	2.669829	0.000000	2.661875	0.007953	2.403000	0.267000
Actual	2005	3.202336	0.000000	3.165725	0.036611	2.882000	0.320000
Actual	2006	3.387527	0.000000	3.320678	0.066848	3.049000	0.339000
Forecast	2007	3.939000	0.000000	3.852815	0.086060	3.545000	0.394000
Forecast	2008	4.567000	0.000000	4.467383	0.099362	4.110000	0.457000
Forecast	2009	5.413000	0.000000	5.311949	0.100647	4.872000	0.541000

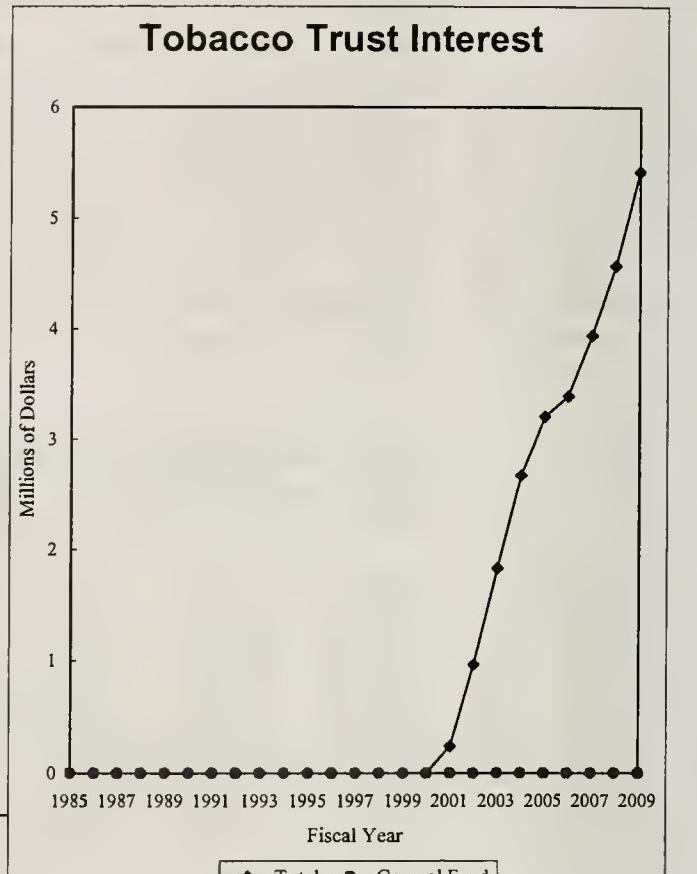
	<u>t</u> <u>Fiscal</u>	Tobacco New Deposit <u>Millions</u>	New Deposit Long Term <u>Rate</u>	Non Pool STIP <u>Rate</u>	Non Pool STIP Bal <u>Millions</u>	Invested Balance <u>Millions</u>	Average Return <u>Rate</u>
Actual	2000	0.000000	6.3380%	5.4290%	0.000000		
Actual	2001	10.650750	6.8850%	4.7390%	0.249457		
Actual	2002	12.432000	6.3380%	2.5650%	0.584877		
Actual	2003	12.563000	5.7290%	1.3600%	0.251155		
Actual	2004	10.852000	5.3650%	1.2650%	0.132682	46.756485	0.057101
Actual	2005	11.095000	5.1950%	2.3890%	2.853978	57.902493	0.055306
Actual	2006	10.261000	5.2480%	4.0720%	0.916926	68.175043	0.049689
Forecast	2007	10.601000	5.4970%	4.6690%	0.916926	78.776043	0.050001
Forecast	2008	14.414000	5.7460%	4.5980%	0.916926	93.190043	0.049005
Forecast	2009	14.986000	5.9680%	4.5570%	0.916926	108.176043	0.050035

Total Rev. = Invested Balance \* Average Return

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Tobacco Settlement Trust Interest**

**Revenue Projection:**

Fiscal Year	Total Collections <u>Millions</u>	General Fund Collections <u>Millions</u>	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	0.000000	0.000000	Not App.
A 1993	0.000000	0.000000	Not App.
A 1994	0.000000	0.000000	Not App.
A 1995	0.000000	0.000000	Not App.
A 1996	0.000000	0.000000	Not App.
A 1997	0.000000	0.000000	Not App.
A 1998	0.000000	0.000000	Not App.
A 1999	0.000000	0.000000	Not App.
A 2000	0.000000	0.000000	Not App.
A 2001	0.239625	0.000000	Not App.
A 2002	0.967687	0.000000	Not App.
A 2003	1.830214	0.000000	Not App.
A 2004	2.669829	0.000000	Not App.
A 2005	3.202336	0.000000	Not App.
A 2006	3.387527	0.000000	Not App.
F 2007	3.939000	0.000000	Not App.
F 2008	4.567000	0.000000	Not App.
F 2009	5.413000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Department of Justice

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

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**Revenue Description:** In the June 1992 election, voters approved a referendum to create the Treasure State Endowment Fund (TSEF) within the permanent coal tax trust fund. The TSEF received a \$10.0 million grant from the permanent trust principal in fiscal 1994 and received 37.5 percent of total coal severance tax collections from July 1999 through June 2003. Beginning fiscal 2004, the trust receives 25 percent of total collections. Interest earned on the TSEF is used to finance local infrastructure projects, as prioritized by the departments of Commerce and Natural Resources and Conservation and authorized by the legislature via the Treasure State Endowment Program (TSEP). The deposit of coal severance tax revenue to this fund terminates at the end of fiscal 2016.

**Statutory Reference:**

Tax Rate – NA  
Distribution (MCA) – 17-5-703 (4c); use of earnings (90-6-701(2))  
Date Due (MCA) – Monthly (17-5-703 (4c))

**Applicable Tax Rate(s):** N/A

**Distribution:** Interest earnings are allocated to the Department of Commerce to fund TSEP.

**Distribution Chart:**



**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

**Revenue Estimate Methodology:**

**Data**

The data used to estimate interest earnings from the treasure state endowment (TSE) trust is obtained from the Board of Investments (BOI), Global Insight, and the state accounting system (SABHRS). The BOI provides information on historic interest rates as well as the gains and losses from the sale of securities. Projections of future interest rates are provided by Global Insight and historic interest collections are obtained from SABHRS.

**Analysis**

The TSE trust was created from distributions of the coal severance tax. The TSE trust was formed early in the 1990's as a sub-trust to the permanent coal trust. The Constitution requires that 50 percent of the coal severance tax collections be distributed to the coal trust, and 50 percent of that distribution (after the water bond debt service obligation is met) or 25 percent of total coal severance tax revenues is distributed to the TSE trust. The principal or corpus of the TSE trust now stands at \$148.0 million. The estimates of future deposits to the TSE trust are developed in the coal severance tax projection and are expected to be \$9.1 million in fiscal 2007, \$9.5 million in fiscal 2008, and \$8.6 million in fiscal 2009.

To forecast the TSE trust interest earnings, each of four interest/income components are estimated independently and combined. The estimated interest/income components include:

- Trust funds bond pool (TFBP)
- In-state investments

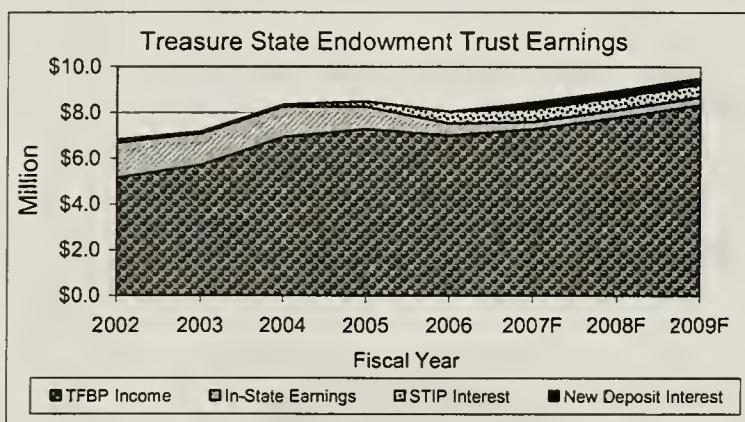
# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

- Short-term investment pool (STIP)
- New trust deposits

The TFBP was formed in 1995 to manage the fixed investments held in the state's major trust funds. Each trust owns "shares" of the pool and interest earnings are paid to each trust on a per-share basis. TFBP earnings are the largest source of earnings for the trust, as shown in the figure below. To estimate TFBP earnings, the base year (fiscal 2006) rate of return generated by the pool, as reported by the BOI, is adjusted during the forecast period for maturing securities. The applicable new long-term rate for these securities is based on an average of four long-term rates projected by Global Insight. The fiscal year long-term rate is expected to be 5.62 percent, 5.62 percent, and 5.63 percent for fiscal years 2007 through 2009, respectively. TSE trust earnings from TFBP interest are expected to be \$7.27 million in fiscal 2007, \$7.77 million in fiscal 2008, and \$8.34 million in fiscal 2009.



As seen in the figure above, earnings from in-state investments are the second largest source of income to the TSE trust. The BOI is required by statute to invest twenty-five percent of coal tax trust in the Montana economy. Investments must be made to maximize the long-term benefit to the Montana economy. In-state investments primarily consist of loans to Montana business entities and earnings are equal to the interest charged on the loans. The in-state balance of \$6.04 million and rate of return of 5.4 percent are held constant throughout the biennium because no new flow of revenue is expected. This yields an in-state earnings estimate of \$323,242 for each fiscal year estimated.

STIP interest (including other interest) is earned on cash, prior to investment in long-term investments. Funds are acquired from new deposits and/or maturing securities in the forecast period. Funds are held in STIP until the BOI determines that conditions are favorable for investment in the TFBP. To estimate future STIP earnings, an average short-term interest rate is developed, based on Global Insight projections of three short-term investments. The average of these rates is then converted to a fiscal year basis. The average fiscal year short-term rate is expected to be 4.67 percent in fiscal 2007, 4.60 percent in fiscal 2008, and 4.56 percent in fiscal 2009. Applying the rates to the STIP balance, STIP estimates are \$572,223; \$563,523; and \$558,501 for fiscal years 2007 through 2009.

Coal severance tax distributions to the TSE trust are considered new deposits. New deposits are transferred to the trust on a quarterly basis. When the BOI receives the coal tax transfer, the funds are immediately invested in STIP. Funds are expected to remain in STIP for one month before being invested in the TFBP. The interest earned on new deposits is estimated by summing STIP earnings for one month with TFBP earnings for the remainder of the year. For the TSE trust, new deposits are expected to earn interest of \$265,841; \$286,109; and \$269,299 for fiscal years 2007 through fiscal 2009, respectively.

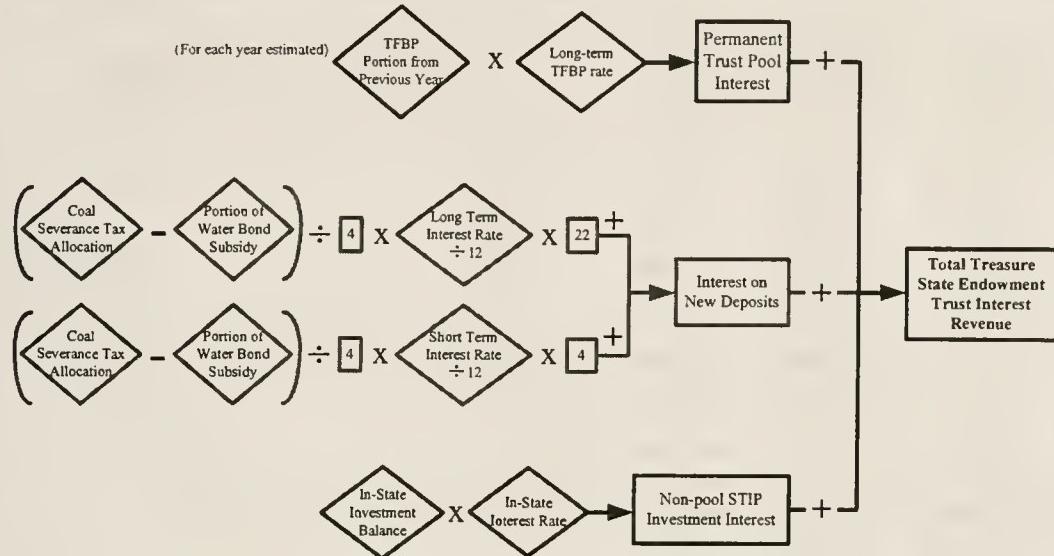
When the estimates are combined, the interest earnings of the TSE trust are expected to be \$8.43 million in fiscal 2007, \$8.95 million in fiscal 2008, and \$9.49 million in fiscal 2009.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasure State Endowment Trust Interest

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

t	Fiscal	Total Rev. Millions	GF Rev. Millions	TFBP Interest Millions	STIP Interest Millions	Loan Interest Millions	Invested Balance Millions	Average Return Rate
Actual	2000	5.123374	0.000000					
Actual	2001	5.801525	0.000000					
Actual	2002	6.804839	0.000000	5.139577	0.134725	1.530537		
Actual	2003	7.175069	0.000000	5.718544	0.091977	1.364547		
Actual	2004	8.349481	0.000000	6.929583	0.085931	1.333115	127.175885	0.065653
Actual	2005	8.481564	0.000000	7.272317	0.236790	0.970369	137.335617	0.061758
Actual	2006	8.038515	0.000000	7.001103	0.514071	0.523204	147.150621	0.054628
Forecast	2007	8.434000	0.000000	7.272581	0.838064	0.323242	156.290621	0.053963
Forecast	2008	8.950000	0.000000	7.777207	0.849632	0.323242	165.774621	0.053989
Forecast	2009	9.489000	0.000000	8.337687	0.827800	0.323242	174.419621	0.054402

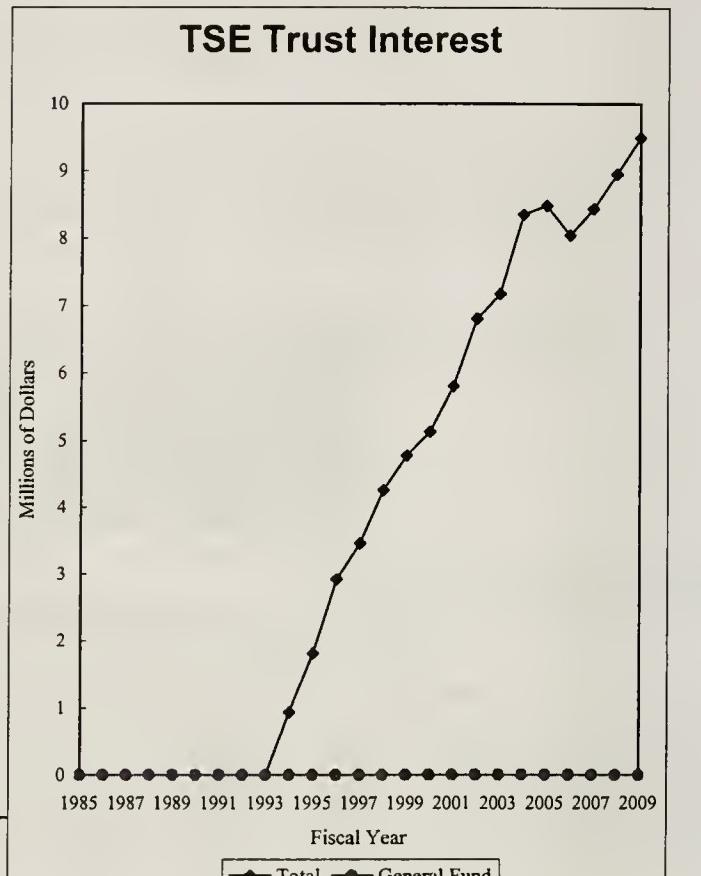
t	Fiscal	Net Coal Tax New Deposit Millions	New Deposit Long Term Rate	Non Pool STIP Rate	Non Pool Loan Rate	Non Pool STIP Bal Millions	Non Pool Loan Bal Millions
Actual	2000	13.301172	7.0160%	5.4290%	0.0000%	12.385400	0.000000
Actual	2001	12.126440	6.8850%	4.7390%	0.0000%	4.384216	19.223452
Actual	2002	11.855268	6.3380%	2.5650%	8.2549%	7.426826	17.858672
Actual	2003	11.033830	5.7290%	1.3600%	7.4418%	11.674509	18.813738
Actual	2004	7.886171	5.3650%	1.2650%	8.2678%	10.526991	13.434570
Actual	2005	9.408628	5.1950%	2.3890%	8.7756%	12.141430	8.680571
Actual	2006	8.955381	5.2480%	4.0720%	7.1089%	11.708362	6.039199
Forecast	2007	9.140000	5.4970%	4.6690%	5.3524%	11.708362	6.039199
Forecast	2008	9.484000	5.7460%	4.5980%	5.3524%	11.708362	6.039199
Forecast	2009	8.645000	5.9680%	4.5570%	5.3524%	11.708362	6.039199

Total Rev. = Invested Balance \* Average Return

**Legislative Fiscal Division**  
**Revenue Estimate Profile**  
**Treasure State Endowment Trust Interest**

**Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	0.000000	0.000000	Not App.
A 1993	0.000000	0.000000	Not App.
A 1994	0.928696	0.000000	Not App.
A 1995	1.810151	0.000000	Not App.
A 1996	2.916499	0.000000	Not App.
A 1997	3.453907	0.000000	Not App.
A 1998	4.250378	0.000000	Not App.
A 1999	4.772585	0.000000	Not App.
A 2000	5.123374	0.000000	Not App.
A 2001	5.801525	0.000000	Not App.
A 2002	6.804839	0.000000	Not App.
A 2003	7.175069	0.000000	Not App.
A 2004	8.349481	0.000000	Not App.
A 2005	8.481564	0.000000	Not App.
A 2006	8.038515	0.000000	Not App.
F 2007	8.434000	0.000000	Not App.
F 2008	8.950000	0.000000	Not App.
F 2009	9.489000	0.000000	Not App.



**Data Source(s):** Board of Investments, SABHRS, *Wall Street Journal*, Global Insight

**Contacts:** Department of Commerce and Department of Natural Resources and Conservation

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# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

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**Revenue Description:** The Department of Administration, Board of Investments is responsible for investing all state funds. Title 17, Chapter 6, MCA, provides guidelines under which the funds must be invested. Unless specifically stated by statute, all interest earned on these investments is deposited in the general fund. Treasury cash is invested in a mixture of short and medium-term investments. Consequently, the interest assumptions adopted by the legislature incorporate a blend of short and intermediate-term rates. When needed to address cash flow problems, the state typically issues tax and revenue anticipation notes (TRANS). The legislature would then adopt TRANS issuance assumptions, since this affects the average invested balance. No TRANS issues are anticipated in the 2007 or 2009 biennia.

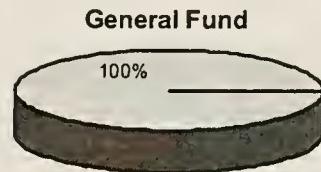
**Statutory Reference:**

Tax Rate – NA  
Distribution (MCA) – 17-6-202(2)  
Date Due – interest deposits are mostly made monthly, but two in June and none in July

**Applicable Tax Rate(s):** N/A

**Distribution:** All investment earnings on the treasury cash account (TCA) are deposited into the general fund.

**Distribution Chart:**



**Collection Frequency:** On-going

**% of Total General Fund Revenue:**

FY 2004 – 0.46%  
FY 2005 – 0.66%  
FY 2006 – 1.09%

**Revenue Estimate Methodology:**

Excess cash in the state treasury is deposited to the treasury cash account (TCA) and invested in short and medium-term investments. Earnings are dependent on the investable cash balance and interest rates. Investment earnings are deposited to the general fund.

**Data**

The Board of Investments provides monthly reports on the treasury cash account balance. The state accounting system (SABHRS) provides information on monthly investment earnings.

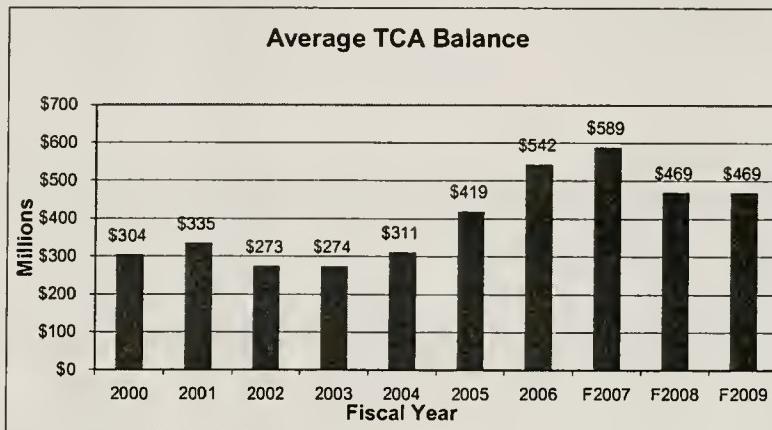
# Legislative Fiscal Division

## Revenue Estimate Profile

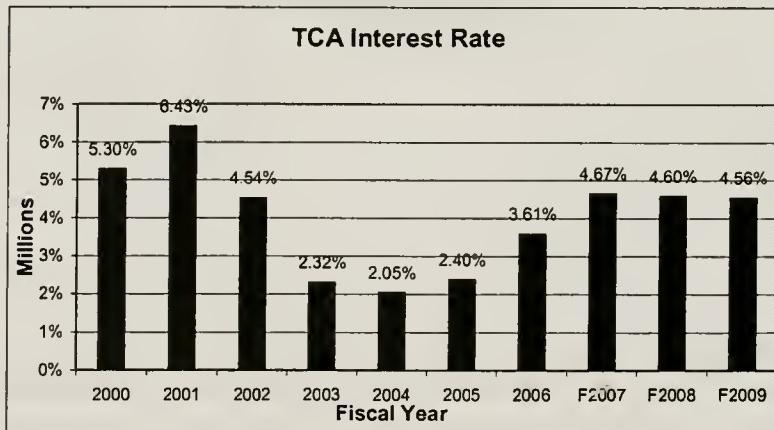
### Treasury Cash Account Interest

#### Analysis

- The average balance of the TCA is estimated by increasing the previous year's balance by the average of the previous fiscal year's general fund balance and the estimated balance for the current year. When cash flow is insufficient, tax revenue anticipation notes (TRANS) are issued to meet short-term cash flow needs. The term of the loan and amount borrowed are used to determine the amount to be added to the average balance calculations. No TRANS are anticipated for FY 2007 -2009.



- Interest rates are estimated by first deriving a composite rate of Global Insight forecasts for the 3-month commercial paper, 3-month treasury bill, and 6-month treasury bill rates. The average of these rates is used as the proxy for a short-term rate.



#### Adjustments and Distribution

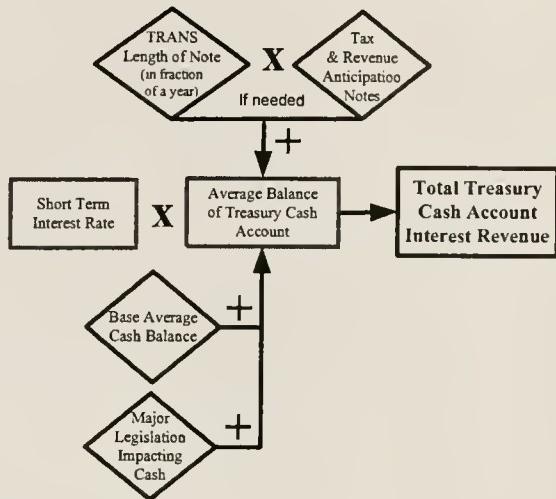
Once total revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Rev. <u>Millions</u>	GF Rev. <u>Millions</u>	Avg. Bal. <u>Millions</u>	Interest Rate	Issue Rate	TRANS Cost
Actual	2000	16.088271	16.088271	303.627590	0.052987	0.000000	0.000000
Actual	2001	21.531903	21.531903	334.705188	0.064331	0.000000	0.000000
Actual	2002	12.414382	12.414382	273.343304	0.045417	0.000000	0.000000
Actual	2003	6.366439	6.366439	273.928913	0.023241	0.026498	1.639327
Actual	2004	6.392992	6.392992	311.477974	0.020525	0.002027	0.099188
Actual	2005	10.046531	10.046531	419.348957	0.023957	0.000000	0.000000
Actual	2006	18.631288	18.631288	542.420040	0.036108	0.000000	0.000000
Forecast	2007	27.482000	27.482000	588.605160	0.046690	0.030145	0.000000
Forecast	2008	21.546000	21.546000	468.605160	0.045980	0.029687	0.000000
Forecast	2009	21.354000	21.354000	468.605160	0.045570	0.029422	0.000000

	<u>t</u> <u>Fiscal</u>	Base Bal. <u>Millions</u>	TRANS <u>Millions</u>	TRANS <u>Length</u>
Actual	2000	303.628000	0.000000	0.000000
Actual	2001	334.705000	0.000000	0.000000
Actual	2002	273.343000	0.000000	0.000000
Actual	2003	212.062000	92.800000	0.666667
Actual	2004	262.545000	73.400000	0.666667
Actual	2005	419.349000	0.000000	0.000000
Actual	2006	542.420000	0.000000	0.000000
Forecast	2007	588.605000	0.000000	0.000000
Forecast	2008	468.605000	0.000000	0.000000
Forecast	2009	468.605000	0.000000	0.000000

Total Rev. = Average Balance \* Interest Rate

GF Rev = Total Rev.

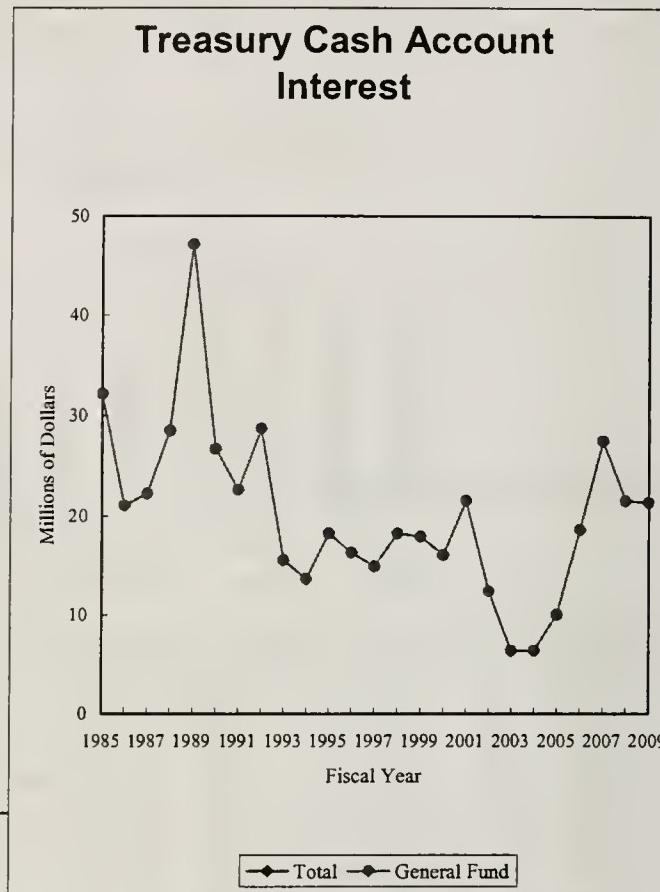
# Legislative Fiscal Division

## Revenue Estimate Profile

### Treasury Cash Account Interest

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	32.154906	32.154906	Not App.
A 1986	21.044770	21.044770	-34.55%
A 1987	22.228606	22.228606	5.63%
A 1988	28.512114	28.512114	28.27%
A 1989	47.124294	47.124294	65.28%
A 1990	26.725363	26.725363	-43.29%
A 1991	22.624293	22.624293	-15.35%
A 1992	28.702764	28.702764	26.87%
A 1993	15.534745	15.534745	-45.88%
A 1994	13.641728	13.641728	-12.19%
A 1995	18.270206	18.270206	33.93%
A 1996	16.294496	16.294496	-10.81%
A 1997	14.924918	14.924918	-8.41%
A 1998	18.246918	18.246918	22.26%
A 1999	17.919956	17.919956	-1.79%
A 2000	16.088271	16.088271	-10.22%
A 2001	21.531903	21.531903	33.84%
A 2002	12.414382	12.414382	-42.34%
A 2003	6.366439	6.366439	-48.72%
A 2004	6.392992	6.392992	0.42%
A 2005	10.046531	10.046531	57.15%
A 2006	18.631288	18.631288	85.45%
F 2007	27.482000	27.482000	47.50%
F 2008	21.546000	21.546000	-21.60%
F 2009	21.354000	21.354000	-0.89%



**Data Source(s):** SABHRS, Department of Administration, *Wall Street Journal*, Global Insight

**Contacts:** Department of Administration

# Consumption Taxes

Beer Tax  
Cigarette Tax  
Diesel Tax  
Gasoline Tax  
GVW & Other Fees  
Liquor Excise & License Tax  
Liquor Profits  
Lottery Profits  
Tobacco Tax  
Video Gambling Tax  
Wine Tax



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



# Legislative Fiscal Division

## Revenue Estimate Profile

### Beer Tax

**Revenue Description:** A tax is levied on each barrel of beer (31 gallons) produced in or imported into Montana based on the amount produced. A portion of the revenue from the beer tax is returned to Indian tribes per an agreement between the Department of Revenue and the tribes.

#### Statutory Reference:

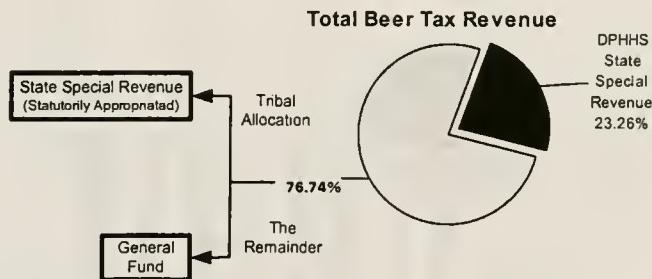
Tax Rate (MCA) – 16-1-406  
Distribution (MCA) – 16-1-406  
Date Due – end of the month and collected in the next month

**Applicable Tax Rate(s):** The per barrel tax varies based on barrels of production:

up to 5,000 barrels - \$1.30  
5,001 to 10,000 barrels - \$2.30  
10,001 to 20,000 barrels - \$3.30  
over 20,000 barrels - \$4.30

**Distribution:** Beer tax revenue is distributed 76.74 percent to the general fund and 23.26 percent to the DPHHS state special revenue alcohol account. The general fund portion is reduced by the amount of the tribal distribution.

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 0.21%  
FY 2005 – 0.19%  
FY 2006 – 0.17%

#### Revenue Estimate Methodology:

##### Data

To create the beer estimate, data are obtained from the Department of Revenue (DOR) and the state accounting system (SABHRS). The DOR provides the details of taxes paid at each of the four incremental tax rates and information on tribal distributions. SABHRS shows total fiscal year tax collections.

DOR provides data detailing the tax paid at each of the four tax rates. A more accurate calculation of the number of barrels of beer taxed in each fiscal year can be produced with the detailed data. Because the beer tax rate is applied incrementally based on the number of barrels each brewer produces in a year, the number of barrels taxed each year cannot be accurately determined without this information.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Beer Tax

The DOR data are used to determine a “proxy” for barrels of beer consumed in Montana. Besides providing the means to measure the taxable barrels of beer sold by wholesalers and producers in Montana, DOR data are used to develop an effective tax rate. The effective rate is created with a weighted average of beer sales by tax rate. The calculation for the weighted average effective rate is as follows:

$$ETR = (\text{Rate}_{\$4.40} * \% \text{Taxed}_{\$4.40}) + (\text{Rate}_{\$3.40} * \% \text{Taxed}_{\$3.40}) + (\text{Rate}_{\$2.40} * \% \text{Taxed}_{\$2.40}) + (\text{Rate}_{\$1.40} * \% \text{Taxed}_{\$1.40})$$

Where:

ETR is the effective tax rate.

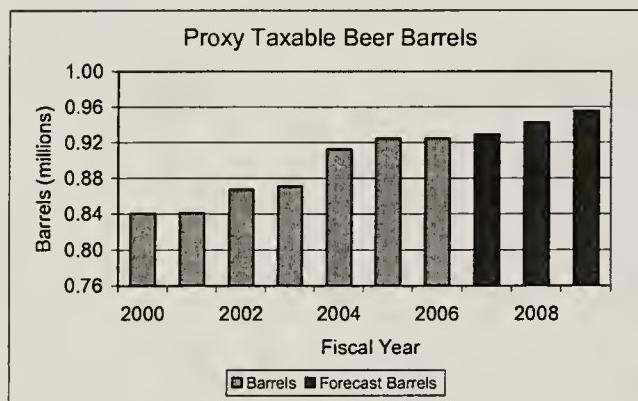
In the estimated period, the effective tax rate is \$4.18 per barrel.

SABHRS data are used in conjunction with the DOR data to derive the number of taxable barrels sold in the state. To calculate taxable barrels, the total tax collected in each fiscal year is divided by the effective tax rate.

#### Analysis

Analysis of the beer data shows a constant trend for taxable barrels sold in Montana, as demonstrated in the figure below. Consequently, the proxy of taxable barrels sold is regressed in a linear trend model to determine the future taxable barrels of beer that will be sold in Montana. The trend is based on the series of proxy barrels beginning in fiscal 1995.

The statistics of fit show that a linear trend accurately measures the rate of growth in the number of taxable barrels of beer sold in Montana. The model provides an  $R^2$  rating of 0.956. This means that the linear trend explains 95.6 percent of the variability of the number of barrels sold in Montana, when all other impacts are held constant.\* The model provides a rate of growth of 16,681 barrels per fiscal year.



The rate of growth developed in the trend model is 1.5 percent annually. The rate of growth is applied to the most recent actual fiscal year data available, or base year fiscal 2006. As seen in the figure above, the projection for beer consumed in Montana is 928,955 barrels, 942,274 barrels, and 955,539 barrels for fiscal years 2007 through 2009, respectively. Finally, the effective tax rate is applied to the proxy of barrels developed above. This step produces total tax estimates of \$3.9 million in fiscal 2007, \$3.9 million in fiscal 2008, and \$4.0 million in fiscal 2009.

#### Adjustment and Distribution

The last step in producing the estimate for beer tax collections is to calculate the tax distributions. Beer taxes are distributed between two funds, the general fund, 76.74 percent, and the Department of Health and Human Services alcohol state special revenue account, 23.26 percent. Finally, the general fund distribution is reduced by tribal reimbursements. At this time, three of the seven tribal governments receive beer tax dollars, Blackfeet, Fort Belknap, and Fort Peck. These tribal governments adhere to the Montana beer tax laws. The state of Montana collects the tribes’ portion of the beer tax and quarterly distributes those collections based on a formula (per capita beer consumption times tribal membership times the Montana tax rate).

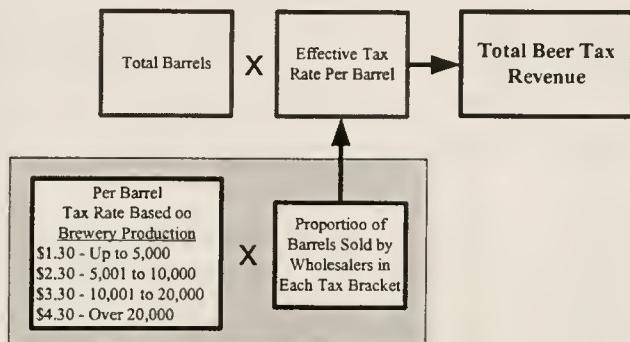
\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Beer Tax

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	Fiscal	Total Tax Millions	GF Tax Millions	Barrels Millions	Tax Rate \$ Per Barrel	Effective Tax Rate \$ Per Barrel	GF Allocation Percent	Tribal Millions
Actual	2000	3.613076	0.370418	0.840250	4.300000		0.116283	0.049723
Actual	2001	3.614271	0.384630	0.840528	4.300000		0.116300	0.035710
Actual	2002	3.673818	2.783903	0.867120	4.300000	4.236803	0.767400	0.035385
Actual	2003	3.680560	2.771455	0.870776	4.300000	4.226759	0.767400	0.053007
Actual	2004	3.852303	2.896797	0.912591	4.300000	4.221281	0.767400	0.059460
Actual	2005	3.903377	2.936880	0.924338	4.300000	4.222887	0.767402	0.058580
Actual	2006	3.866023	2.907718	0.924681	4.300000	4.180928	0.767400	0.059068
Forecast	2007	3.884000	2.922000	0.928955	4.300000	4.180928	0.767400	0.059000
Forecast	2008	3.940000	2.965000	0.942274	4.300000	4.180928	0.767400	0.059000
Forecast	2009	3.996000	3.006000	0.955593	4.300000	4.180928	0.767400	0.061000

Total Tax = Barrels \* Effective Tax Rate

GF Tax = Barrels \* Effective Tax Rate \* GF Allocation - Tribal

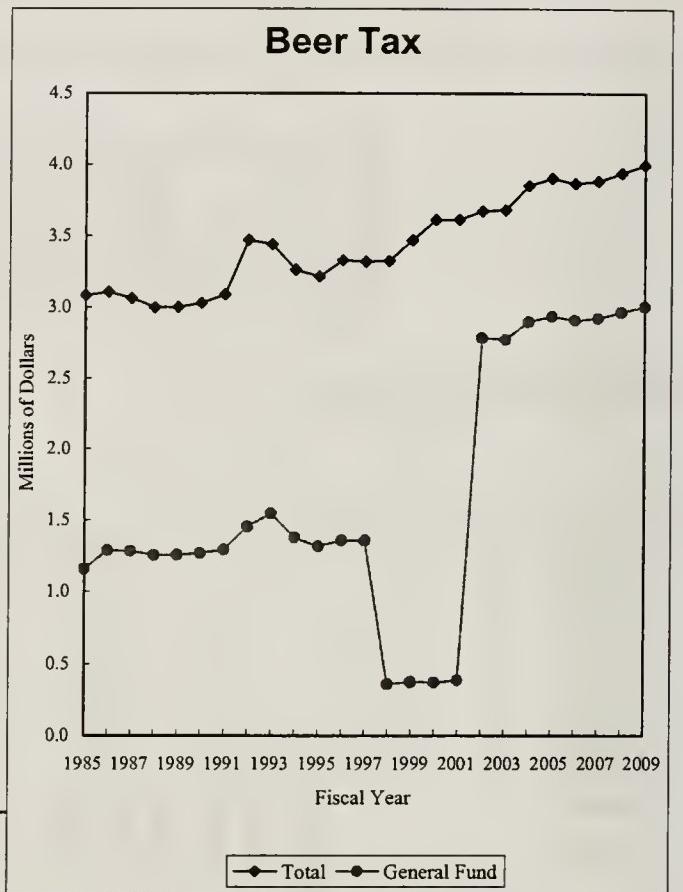
# Legislative Fiscal Division

## Revenue Estimate Profile

### Beer Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	3.083163	1.156186	Not App.
A 1986	3.105743	1.287765	11.38%
A 1987	3.060956	1.281316	-0.50%
A 1988	2.997014	1.254564	-2.09%
A 1989	3.000273	1.255928	0.11%
A 1990	3.028992	1.267950	0.96%
A 1991	3.089077	1.293102	1.98%
A 1992	3.470874	1.452896	12.36%
A 1993	3.441481	1.545395	6.37%
A 1994	3.263345	1.375734	-10.98%
A 1995	3.215598	1.316559	-4.30%
A 1996	3.329868	1.356496	3.03%
A 1997	3.318449	1.356720	0.02%
A 1998	3.324479	0.358284	-73.59%
A 1999	3.469910	0.373965	4.38%
A 2000	3.613076	0.370418	-0.95%
A 2001	3.614271	0.384630	3.84%
A 2002	3.673818	2.783903	623.79%
A 2003	3.680560	2.771455	-0.45%
A 2004	3.852303	2.896797	4.52%
A 2005	3.903377	2.936880	1.38%
A 2006	3.866023	2.907718	-0.99%
F 2007	3.884000	2.922000	0.49%
F 2008	3.940000	2.965000	1.47%
F 2009	3.996000	3.006000	1.38%



**Data Source(s):** SABHRS, Bureau of Economic Analysis, U.S. Dept. of Commerce, MT Department of Labor and Industry

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cigarette Tax

**Revenue Description:** The cigarette tax is an excise tax imposed on all cigarettes sold or possessed in Montana. The tax is imposed on the retail consumer, but is collected by wholesalers or retailers through the use of tax insignia. The insignias are purchased from the state and affixed to each package of cigarettes. The tax does not apply to quota cigarettes sold on an Indian reservation. In practice, the tax is levied on all cigarettes and the wholesaler receives a refund for the amount within the quota that has been sold within the boundaries of an Indian reservation. Each tribe's quota is equal to 150.0 percent of Montana's per capita general fund cigarette tax revenue multiplied by the enrolled tribal member population, or any other amount agreed to in a state-tribal agreement. The state has agreements with five tribes in Montana.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 increasing the tax on cigarettes to \$0.70 per 20-cigarette package, a 289 percent increase from the previous \$0.18 tax. Shortly thereafter, the electorate approved I-149 that raised the tax on packs of 20 cigarettes by \$1.00 to \$1.70, beginning January 1, 2005, an increase of 143 percent. Both SB 407 and I-149 changed the distributor percentage discounts, but the amounts that distributors are allowed to retain for administration of the tax stayed relatively constant. SB 407 changed the distribution of the tax revenues to increase the amount deposited into the state general fund. I-149 increased tax revenues for veterans' nursing home operation and maintenance and provided revenue to a new state special revenue fund for health and Medicaid initiatives.

#### Statutory Reference:

- Tax Rate (MCA) – 16-11-111
- Tax Distribution (MCA) – 16-11-119
- Date Due – within 30 days after purchase of the insignia (16-11-117)

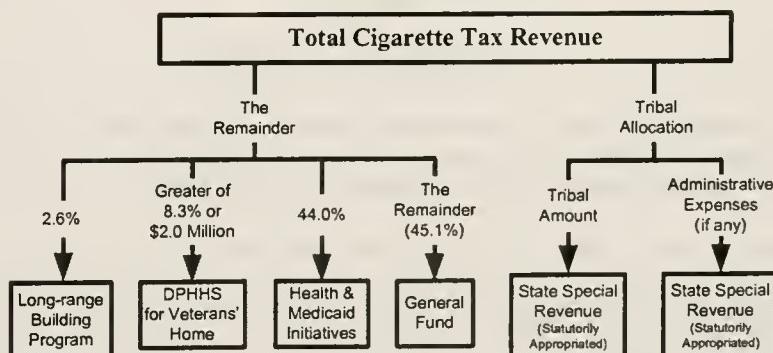
#### Applicable Tax Rate(s):

- Beginning January 2005, the excise tax on cigarettes is \$1.70 per package of 20 cigarettes, prorated for packages that differ from 20 cigarettes.
- Wholesalers pay a license fee of \$50.00 and each retailer pays a license fee of \$5.00. License fees are renewable each year and are non-transferable. Revenue from these fees is shown in "All Other General Fund Revenue".

**Distribution:** All wholesaler and retailer license fees are deposited in the general fund. After deductions for tribal refunds, the cigarette tax revenue is distributed:

- The greater of 8.3% or \$2.0 million to DPHHS for veterans' nursing home operation and maintenance
- 2.6% to the long-range building program
- 44.0% for health and Medicaid initiatives
- The remainder (45.1%) to the general fund

#### Distribution Chart



# Legislative Fiscal Division

## Revenue Estimate Profile

### Cigarette Tax

Collection Frequency: Monthly

#### % of Total General Fund Revenue:

FY 2004 – 2.61%

FY 2005 – 2.29%

FY 2006 – 2.02%

#### Revenue Estimate Methodology:

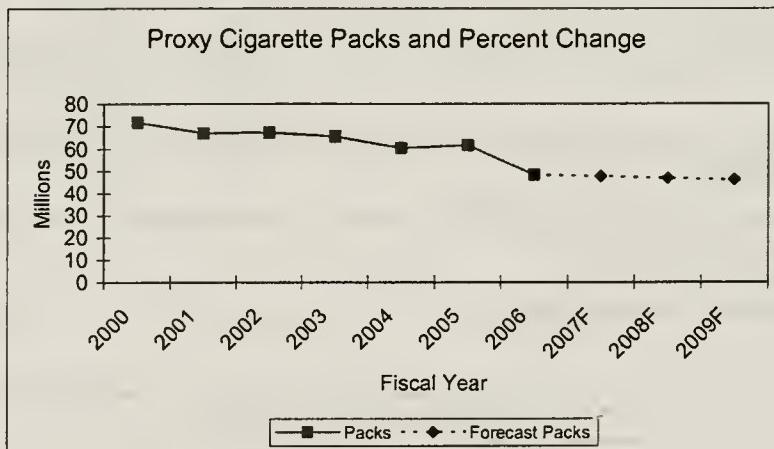
##### Data

Data from the state accounting system (SABHRS) and the Department of Revenue (DOR) are used to forecast cigarette tax revenues. The DOR provides information on the number of cigarette insignias (stamps) sold in each month and the amount of discounts given to cigarette distributors. Historic observations of tax collections are available through SABHRS.

DOR provides detailed information on the sales of tax insignias by pack size, company, Tribal, and month. To prepare the raw data for analysis, the total number of insignia sales is reduced by discounts and refunds given to the distributor. The resulting amount serves as a proxy for the number of taxable cigarette packs consumed in Montana in a year. The actual SABHRS data serves as a check against the number of proxy packs of cigarettes calculated by this method.

##### Analysis

In 1982, the consumption of cigarettes began to decrease as a result of an increased awareness of the health risks associated with smoking. Between 1982 and 2002, cigarette consumption decreased at a rate of almost 2 percent annually. Each of the two recent tax increases caused consumption to decrease at a greater rate for two years. These decreases forced downward shifts in Montana's consumption curve. The shifts are evident in the figure below between fiscal years 2003 and 2004, -7.7 percent, and between fiscal years 2005 and 2006, -21.7 percent.



Experts in the field of cigarette consumption find that following the initial consumption response to the price adjustment of a tax increase, the consumption decline should return to the normal pattern. Shown in the figure above, the forecast of packs decline by approximately two percent per year, following the reduction experienced in fiscal 2006.

Analysis shows that following the impacts from the price increases that were driven by the two tax increases, cigarette consumption declined at the slower rate of 1.6 percent. Consequently, the estimate of taxable cigarette pack sales for the forecast period is calculated by applying the decline of 1.6 percent to the base year, fiscal 2006, proxy for taxable packs. The estimates of proxy taxable cigarette packs are 47.6 million, 46.8 million, and 46.1 million for fiscal years 2007 through 2009, respectively. When the current tax rate is applied to the proxy for taxable packs, total estimates of \$80.6 million, \$78.8 million, and \$77.6 million are produced for fiscal years 2007 through 2009, respectively.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Cigarette Tax

#### Adjustment and Distribution

After estimating the gross cigarette tax collections, the estimates are reduced by the discounts and credits passed on to distributors. The last step in producing the estimate for the cigarette tax is to calculate the tax distributions. First, cigarette tax revenue is reduced by tribal distributions. At this time, five of the seven tribal governments receive cigarette tax dollars, Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow. These tribal governments adhere to Montana cigarette tax laws. The state of Montana collects the tribes' portion of the tax and quarterly distributes the collections based on a formula (per capita cigarette consumption times tribal membership times the Montana tax rate). Finally, the remaining tax revenues are distributed proportionally to the programs funded with cigarette tax revenues and to the general fund.

#### **Forecast Methodology:**



#### **Revenue Estimate Assumptions:**

	<u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Pack <u>Millions</u>	Tax Rate Per Pack	GF Percent Allocation	Tribal <u>Millions</u>	Discounts <u>Refunds</u> <u>Millions</u>
Actual	2000	11.766271	8.463793		0.180000	0.719327	0.178384	
Actual	2001	11.628459	8.284722		0.180000	0.712452	0.285740	
Actual	2002	11.052174	7.886903		0.180000	0.713606	0.254115	
Actual	2003	16.093023	12.576306		0.266667	0.781476	0.285856	
Actual	2004	41.582824	36.001502	60.906841	0.700000	0.865778	0.396269	1.051966
Actual	2005	54.765357	35.116847	58.871073	1.200000	0.641224	0.841913	3.582335
Actual	2006	80.180236	34.573004	48.336403	1.700000	0.431191	3.521691	0.838378
Forecast	2007	80.060000	34.516000	47.579745	1.700000	0.451000	3.528000	0.825254
Forecast	2008	78.807000	33.843000	46.834932	1.700000	0.451000	3.766000	0.812336
Forecast	2009	77.573000	33.308000	46.101778	1.700000	0.451000	3.719000	0.799620

Total Tax = Packs \* Tax Rate - Discounts/Refunds

GF Tax = (Total Tax - Tribal) \* GF Allocation

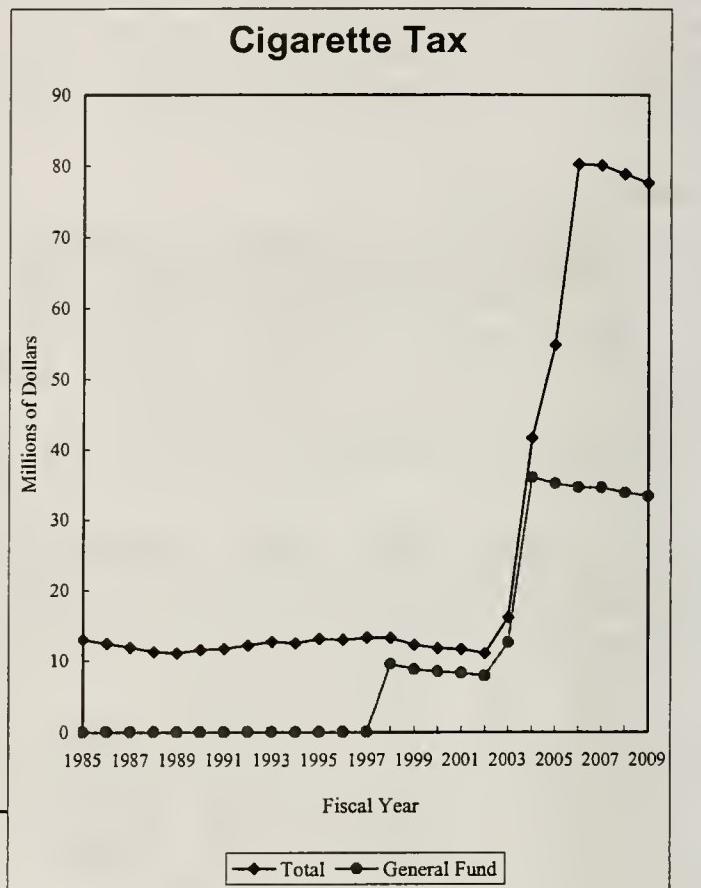
# Legislative Fiscal Division

## Revenue Estimate Profile

### Cigarette Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	12.981436	0.000000	Not App.
A 1986	12.4466822	0.000000	Not App.
A 1987	11.894715	0.000000	Not App.
A 1988	11.278326	0.000000	Not App.
A 1989	11.113087	0.000000	Not App.
A 1990	11.567081	0.000000	Not App.
A 1991	11.733190	0.000000	Not App.
A 1992	12.172864	0.000000	Not App.
A 1993	12.698195	0.000000	Not App.
A 1994	12.495504	0.000000	Not App.
A 1995	13.114640	0.000000	Not App.
A 1996	12.969138	0.000000	Not App.
A 1997	13.267373	0.000000	Not App.
A 1998	13.244550	9.543855	Not App.
A 1999	12.265346	8.822721	-7.56%
A 2000	11.766271	8.463793	-4.07%
A 2001	11.628459	8.284722	-2.12%
A 2002	11.052174	7.886903	-4.80%
A 2003	16.093023	12.576306	59.46%
A 2004	41.582824	36.001502	186.26%
A 2005	54.765357	35.116847	-2.46%
A 2006	80.180236	34.573004	-1.55%
F 2007	80.060000	34.516000	-0.16%
F 2008	78.807000	33.843000	-1.95%
F 2009	77.573000	33.308000	-1.58%



**Data Source(s):** SABHRS, Department of Revenue Collection Reports, U.S. Department of Commerce, MT Department of Labor and Industry, Center for Disease Control

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Diesel Tax

**Revenue Description:** The Montana Constitution (Article VIII, Section 6) provides that money from taxes on vehicle fuel be used solely for: 1) payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; 2) payment of county, city, and town obligations on streets roads, and bridges; and 3) enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

There are two sources of revenue associated with the taxation of special fuels (primarily diesel): 1) the main source of revenue is a diesel tax of \$0.2775 per gallon paid to the Department of Transportation (DOT) for every gallon of diesel sold or used in the state; and 2) a tax of \$0.0075 assessed on each gallon of diesel fuel for the purpose of funding petroleum storage tank cleanup.

Distributors are allowed to withhold 1.0 percent of the diesel tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, DOT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for commercial vehicle use other than for use on public highways and streets, governmental use, and nonpublic school use for the transportation of pupils.

#### Statutory Reference:

Tax Rate (MCA) – 15-70-321(2), 15-11-313 (storage tank cleanup)  
Tax Distribution (MCA) – 15-70-101(1), 75-11-314 (storage tank cleanup)  
Date Due – 25<sup>th</sup> of the following month (15-70-344(1))

#### Applicable Tax Rate(s):

1. Diesel (Special) Fuel Tax - \$0.2775 per gallon
2. Petroleum Storage Tank Cleanup Tax - \$0.0075

**Distribution:** After reductions for: 1) the 1.0 percent withheld by distributors; 2) administrative expenses and refund amounts deducted by DOT under a tribal agreement (if any) that are deposited in the tribal motor fuels administration account and statutorily appropriated; 3) diesel tax refunds; and 4) amounts refunded through the international fuel tax agreement, diesel tax proceeds are distributed to DOT. Of that amount, 1/4 of \$0.01 per gallon is allocated specifically to the funding of highway system maintenance.

#### Distribution Chart:



**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

##### Data

The data used in the diesel tax estimate are obtained from the state accounting system (SABHRS). The SABHRS data includes a historic series of diesel tax revenues and is used to produce a proxy amount for taxable gallons of diesel sold in Montana.

Total diesel taxes are composed of two distinct taxes, the diesel tax and the diesel petroleum storage tank cleanup tax (imposed to cover the cost of storage tank cleanup). Each rate is applied to a proxy for taxable diesel gallons. To create the proxy, the actual

# Legislative Fiscal Division

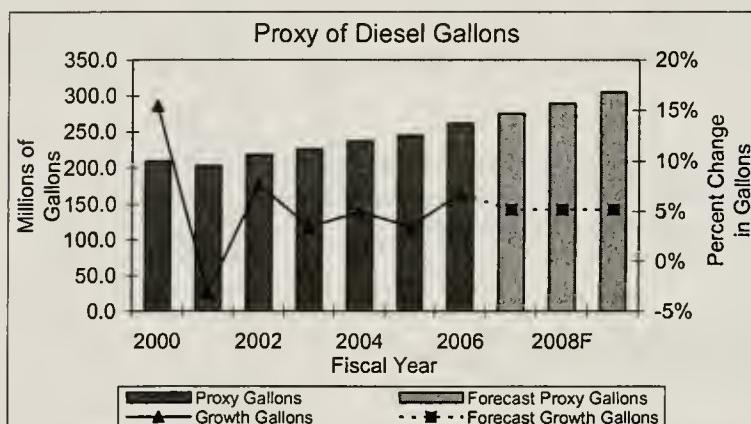
## Revenue Estimate Profile

### Diesel Tax

tax revenues are increased by refunds and then divided by the “effective tax rate”. The effective tax rate is created in recognition of the statutory credit provided to diesel distributors for collection and payment of the tax. Under current law, diesel distributors are allowed to keep 1 percent of the tax on all diesel receipts and must pay 99 percent of the tax receipts to the state. The effective rate for the forecast period is \$0.274725. After calculating the proxy taxable gallons, the data can be analyzed.

#### Analysis

The diesel tax is imposed on each gallon of diesel sold in the state. Diesel sales may be function of the price per gallon of diesel and highly susceptible to economic activity. Because of the high variability of diesel sales, a log model is used to project future sales. Log models reduce the variability in the data observations and provide a better estimate of the expected sales of gallons of diesel. The statistics of fit show that the log model accurately measures the rate of growth in the number of taxable gallons of diesel sold in Montana. The model provides an  $R^2$  rating of 0.991. This means that the log model explains 99.1 percent of the variability of the number of gallons sold in Montana, when all other impacts are held constant.\*



The figure above shows the actual gallons of diesel sold in Montana between fiscal 2000 and fiscal 2006 and the expected sales of diesel for fiscal 2007 through 2009. Instead of using the number of taxable gallons produced in the log model to estimate future diesel taxes, the growth rate of gallons, as produced in the model, is calculated and applied to base year gallons (2006). The average growth rate resulting from the model was 5.2 percent. When applied to the proxy of taxable diesel gallons sold in fiscal 2006, future consumption of diesel is expected to be 275.6 million in fiscal 2007, 298.9 million in fiscal 2008, and 305.0 million in fiscal 2009.

After the proxy of taxable gallons is estimated, the effective diesel tax rate is applied to the estimate. The gross tax receipts of the diesel tax are expected to be \$75.7 million, \$79.7 million, and \$83.8 million in fiscal years 2007 through 2009, respectively. Next, the diesel tank tax is applied to the estimate for taxable diesel gallons producing expected tax receipts of \$2.96 million in fiscal 2007, \$3.11 million in fiscal 2007, and \$3.28 million in fiscal 2009. The two estimates are summed and produce total gross diesel tax estimates of \$78.7 million, \$82.8 million, and \$87.1 million in fiscal 2007 through fiscal 2009, respectively.

#### Adjustments

One adjustment is made to the expected gross diesel tax revenues. Gross tax revenues are reduced by refunds amounting to \$4.4 million in fiscal 2007, \$4.6 million in fiscal 2008, and \$4.9 million in fiscal 2009. The resulting estimates for diesel taxes are \$74.3 million in fiscal 2007, \$78.1 million in fiscal 2008, and \$82.2 million in fiscal 2009.

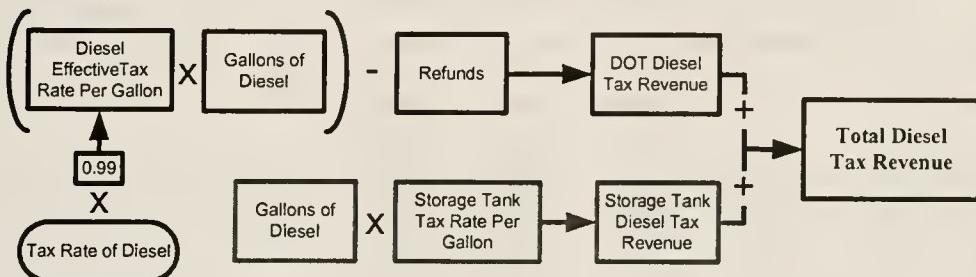
\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Diesel Tax

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Gross <u>Millions</u>	Diesel Tax <u>Millions</u>	Tank Tax <u>Millions</u>
Actual	2000	56.454757	0.000000	59.780702	54.259213	2.195544
Actual	2001	54.048082	0.000000	57.941310	51.861214	2.186868
Actual	2002	58.260741	0.000000	62.220598	56.094333	2.166408
Actual	2003	60.133456	0.000000	64.332478	57.901809	2.231647
Actual	2004	63.181143	0.000000	67.600256	60.750470	2.430673
Actual	2005	65.366712	0.000000	70.069177	62.722690	2.644022
Actual	2006	70.594582	0.000000	74.766720	67.780065	2.814517
Forecast	2007	74.285000	0.000000	78.675613	71.324465	2.960838
Forecast	2008	78.147000	0.000000	82.765824	75.032503	3.114766
Forecast	2009	82.210000	0.000000	87.068678	78.933315	3.276697

	<u>t</u> <u>Fiscal</u>	Refunds <u>Millions</u>	Diesel Effective <u>Rate</u>	Tank Effective <u>Rate</u>	Diesel Gallons <u>Millions</u>	Tank Gallons <u>Millions</u>
Actual	2000	-3.325945	0.274725	0.007500	209.610185	292.739200
Actual	2001	-3.893228	0.274725	0.007500	202.946372	291.582400
Actual	2002	-3.959857	0.274725	0.007500	218.597470	288.854400
Actual	2003	-4.199022	0.274725	0.007500	226.047251	297.552933
Actual	2004	-4.419113	0.274725	0.007500	237.217519	324.089733
Actual	2005	-4.702465	0.274725	0.007500	245.427810	352.536267
Actual	2006	-4.172138	0.274725	0.007500	261.906281	375.268933
Forecast	2007	-4.390310	0.274725	0.007500	275.602056	394.778414
Forecast	2008	-4.618555	0.274725	0.007500	289.930141	415.302154
Forecast	2009	-4.858666	0.274725	0.007500	305.003118	436.892882

# Legislative Fiscal Division

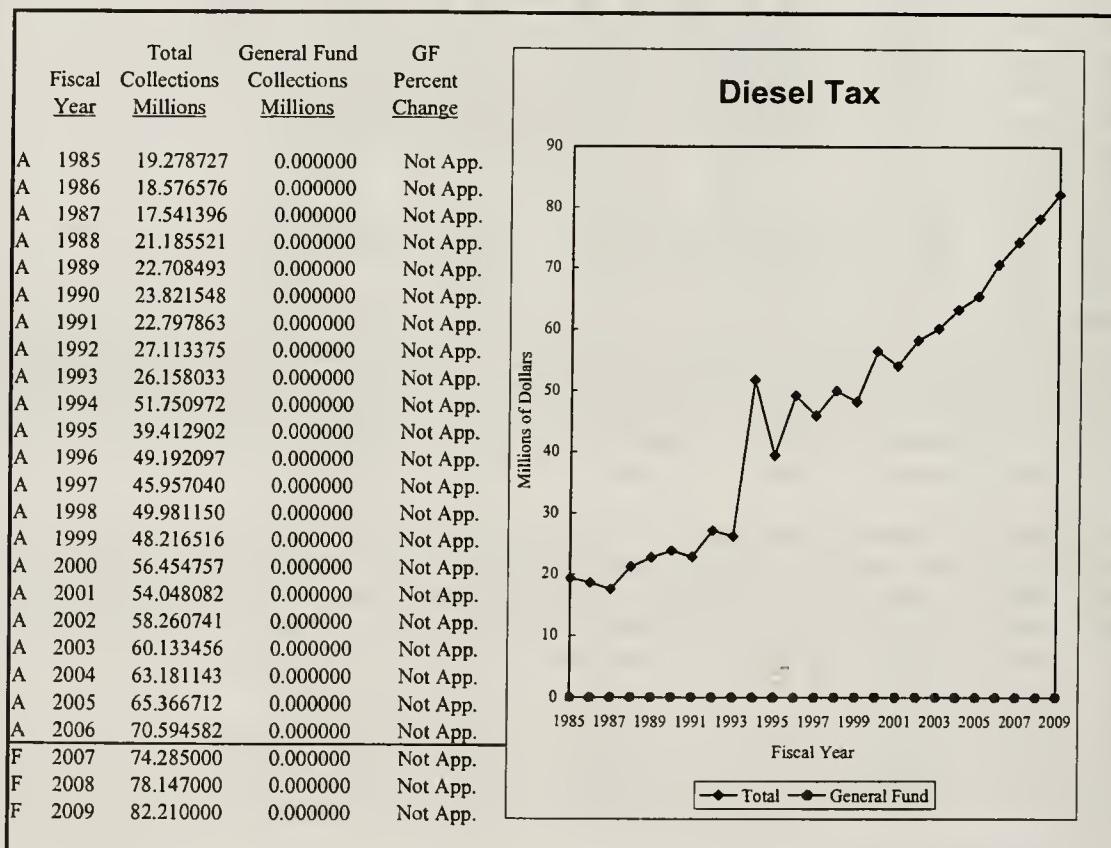
## Revenue Estimate Profile

### Diesel Tax

	<u>Fiscal</u>	<u>GF Percent</u>	<u>DOT Percent</u>	<u>GF Millions</u>	<u>DOT Millions</u>
Actual	2000	0.0000%	100.0000%	0.000000	54.259213
Actual	2001	0.0000%	100.0000%	0.000000	51.861214
Actual	2002	0.0000%	100.0000%	0.000000	56.094333
Actual	2003	0.0000%	100.0000%	0.000000	57.901809
Actual	2004	0.0000%	100.0000%	0.000000	60.750470
Actual	2005	0.0000%	100.0000%	0.000000	62.722690
Actual	2006	0.0000%	100.0000%	0.000000	67.780065
Forecast	2007	0.0000%	100.0000%	0.000000	71.324000
Forecast	2008	0.0000%	100.0000%	0.000000	75.032000
Forecast	2009	0.0000%	100.0000%	0.000000	78.933000

Total Tax = Diesel Effective \* Diesel Gallons + Tank Effective \* Tank Gallons + Refunds

#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Transportation

**Contacts:** Department of Transportation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Gasoline Tax

**Revenue Description:** The constitution of the state (Article VIII, Section 6) provides that money from taxes on vehicle fuel be used solely for: 1) payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; 2) payment of county, city, and town obligations on streets roads, and bridges; and 3) enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

There are two sources of revenue associated with the taxation of gasoline: 1) the primary source of revenue is a gasoline license tax of \$0.27 per gallon paid to the Department of Transportation (DOT) by every distributor for the privilege of selling gasoline; and 2) a tax of \$.0075 assessed on each gallon of gasoline for the purpose of funding petroleum storage tank cleanup.

Distributors are allowed to withhold 1.0 percent of the gasoline tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, DOT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for denaturing alcohol used in gasohol, stationary gasoline engines used off public highways and streets, and commercial vehicle use other than for use on public highways and streets.

#### Statutory Reference:

Tax Rate (MCA) – 15-70-204(1), 15-11-314 (storage tank cleanup)  
Distribution (MCA) – 15-70-101(1), 60-3-201(1), 75-11-313 (storage tank cleanup)  
Date Due – 25<sup>th</sup> of the following month (15-70-205(1))

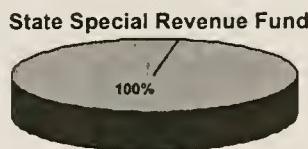
#### Applicable Tax Rate(s):

1. Gasoline License Tax - \$0.27 per gallon
2. Petroleum Storage Tank Cleanup Tax - \$0.0075

**Distribution:** After reductions for: 1) the 1.0 percent withheld by distributors; 2) administrative expenses and refund amounts deducted by DOT under a tribal agreement that are deposited in the tribal motor fuels administration account and statutorily appropriated; 3) gasoline tax refunds; and 4) amounts refunded through the international fuel tax agreement, the remainder of the gasoline tax is allocated as follows:

- 9/10 of 1.0% to the state park account
- 15/28 of 1.0% to a snowmobile account in the state special revenue fund. This amount is further allocated 86.0% for general use, 4.33% for enforcement, 8.67% for safety and education, and 1.0% to the noxious weed trust.
- 1/8 of 1.0% to an off-highway vehicle account in the state special revenue fund. This amount is further allocated 90% for general use (including repair of damaged areas) and 10% for safety.
- 1/25 of 1.0% to the aeronautics revenue fund of the Department of Transportation
- 98.3993% to DOT to be used for highway-related purposes, primarily construction projects and administrative costs. One-fourth of \$.01 per gallon is allocated specifically to the funding of highway system maintenance.

#### Distribution Chart:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Gasoline Tax

**Collection Frequency:** Monthly

**% of Total General Fund Revenue:** N/A

#### Revenue Estimate Methodology:

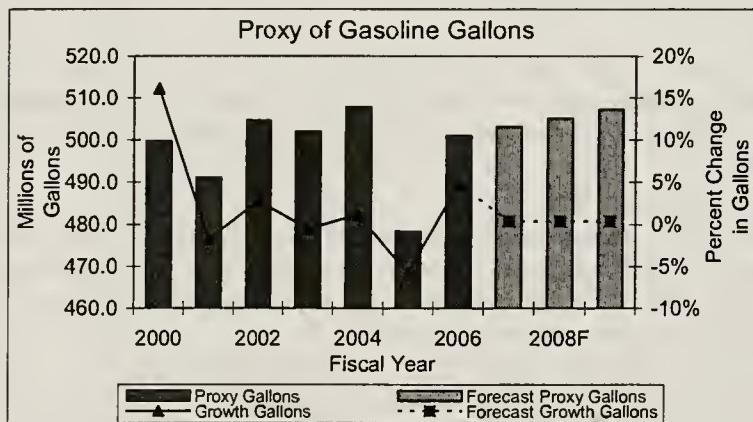
##### Data

The data used in the gasoline tax estimate are obtained from the state accounting system (SABHRS). The SABHRS data includes a historic series of gasoline tax revenues and is used to produce a proxy amount for taxable gallons of gasoline sold in Montana.

Total gasoline taxes are made up of two distinct taxes, the gasoline tax and the gasoline petroleum storage tank cleanup tax (imposed to cover the cost of storage tank cleanup). Each rate is applied to a proxy for taxable gasoline gallons. To create the proxy, the actual tax revenues are increased by refunds and then divided by the “effective tax rate”. The effective tax rate is created in recognition of the statutory credit provided to gasoline distributors for collection and payment of the tax. Under current law, gasoline distributors are allowed to keep 1 percent of the tax on all gasoline receipts and must pay 99 percent of the tax receipts to the state. The effective rate for the forecast period is \$0.2673. After calculating the proxy taxable gallons, the data can be analyzed.

##### Analysis

The gasoline tax is imposed on each gallon of gasoline sold in the state. Gasoline sales may be a function of the price per gallon of gasoline and are highly susceptible to economic activity. Because of the high variability of gasoline sales, a log model is used to project future sales. Log models reduce the variability in the data observations and provide a better estimate of the expected sales of gallons of gasoline. The statistics of fit show that the log model accurately measures the rate of growth in the number of taxable gallons of gasoline sold in Montana. The model provides an  $R^2$  rating of 0.905. This means that the log model explains 90.5 percent of the variability of the number of gallons sold in Montana, when all other impacts are held constant.\*



The figure above shows the actual gallons of gasoline sold in Montana between fiscal years 2000 and 2006 and the expected sales of gasoline for fiscal years 2007 through 2009. Instead of using the number of taxable gallons produced in the log model to estimate future gasoline taxes, the growth rate of gallons, as produced in the model, is calculated and applied to base year gallons (fiscal 2006). The average growth rate resulting from the model was 0.41 percent. When applied to the proxy of taxable gasoline gallons sold in fiscal 2006, future consumption of gasoline is expected to be 503.1 million gallons in fiscal 2007, 505.1 million gallons in fiscal 2008, and 507.2 million gallons in fiscal 2009.

After the proxy of taxable gallons is estimated, the effective gasoline tax rate is applied to the estimate. The gross tax receipts of the gasoline tax are expected to be \$134.5 million, \$135.0 million, and \$135.6 million in fiscal years 2007 through 2009. Next, the gasoline tank tax is applied to the estimate for taxable gasoline gallons producing expected tax receipts of \$3.74 million in

# Legislative Fiscal Division

## Revenue Estimate Profile

### Gasoline Tax

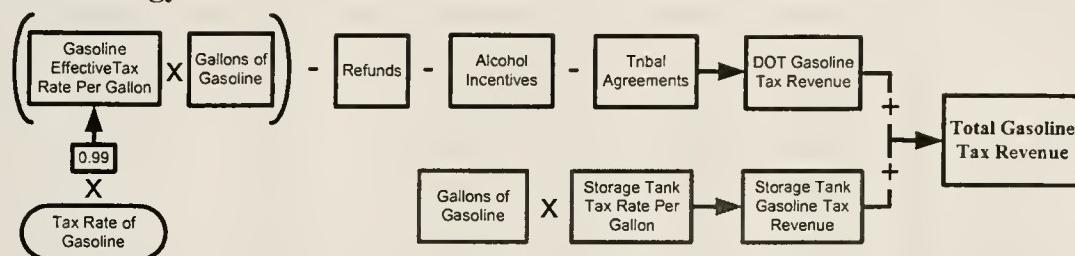
fiscal 2007, \$3.76 million in fiscal 2008, and \$3.77 million in fiscal 2009. The two estimates are summed and produce total gross gasoline tax estimates of \$138.2 million, \$138.8 million, and \$139.3 million in fiscal years 2007 through fiscal 2009, respectively.

#### Adjustments

One adjustment is made to the expected gross gasoline tax revenues. Gross tax revenues are reduced by refunds amounting to approximately \$2.5 million in each of the forecast fiscal years. The resulting estimates for gasoline taxes are \$135.7 million in fiscal 2007, \$136.3 million in fiscal 2008, and \$136.8 million in fiscal 2009.

\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>Fiscal</u>	Total Tax Millions	GF Tax Millions	Gross Tax Millions	Gas Tax Millions	Tank Tax Millions
Actual	2000	130.551884	0.000000	137.379589	126.764307	3.787577
Actual	2001	127.754608	0.000000	134.969262	124.059136	3.695472
Actual	2002	131.730649	0.000000	138.612875	128.001188	3.729461
Actual	2003	131.269072	0.000000	137.967329	127.490014	3.779058
Actual	2004	132.962343	0.000000	139.553197	129.154089	3.808254
Actual	2005	125.076432	0.000000	131.616384	121.342893	3.733539
Actual	2006	135.191541	0.000000	137.651975	131.464648	3.726893
Forecast	2007	135.742000	0.000000	138.212632	132.000104	3.742073
Forecast	2008	136.295000	0.000000	138.775710	132.537872	3.757318
Forecast	2009	136.850000	0.000000	139.340943	133.077699	3.772621

	<u>Fiscal</u>	Refunds Millions	Alcohol Incentives Millions	Tribal Millions	Gas Effective Rate	Tank Effective Rate	Gas Gallons Millions	Tank Gallons Millions
Actual	2000	-3.267807	0.000000	-3.559898	0.267300	0.007500	499.783060	505.01027
Actual	2001	-3.458208	0.000000	-3.756446	0.267300	0.007500	491.110325	492.72960
Actual	2002	-3.152765	0.000000	-3.729461	0.267300	0.007500	504.614343	497.26147
Actual	2003	-2.985118	0.000000	-3.713139	0.267300	0.007500	502.013734	503.87440
Actual	2004	-2.829688	0.000000	-3.761166	0.267300	0.007500	507.837422	507.76720
Actual	2005	-2.786979	0.000000	-3.752973	0.267300	0.007500	478.424411	497.80520
Actual	2006	-2.460434	0.000000	-3.784988	0.267300	0.007500	501.029113	496.91907
Forecast	2007	-2.470455	0.000000	-3.800404	0.267300	0.007500	503.069805	498.94302
Forecast	2008	-2.480520	0.000000	-3.815887	0.267300	0.007500	505.119311	500.97571
Forecast	2009	-2.490623	0.000000	-3.831429	0.267300	0.007500	507.176662	503.01619

# Legislative Fiscal Division

## Revenue Estimate Profile

### Gasoline Tax

<u>t</u>	<u>GF</u>	<u>DOT</u>	<u>FWP Snow</u>	<u>FWP Boat</u>	<u>Aeronautics</u>	<u>Off Highway</u>
<u>Fiscal</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>
Actual	2000	0.0000%	98.3551%	0.4729%	0.9253%	0.0411%
Actual	2001	0.0000%	98.3544%	0.4698%	0.9272%	0.0418%
Actual	2002	0.0000%	98.3640%	0.4711%	0.9227%	0.0411%
Actual	2003	0.0000%	98.3533%	0.4734%	0.9262%	0.0412%
Actual	2004	0.0000%	98.3535%	0.4734%	0.9262%	0.0412%
Actual	2005	0.0000%	98.3480%	0.4746%	0.9283%	0.0412%
Actual	2006	0.0000%	98.3800%	0.4657%	0.9111%	0.0405%
Forecast	2007	0.0000%	98.3800%	0.4657%	0.9111%	0.0405%
Forecast	2008	0.0000%	98.3800%	0.4657%	0.9111%	0.0405%
Forecast	2009	0.0000%	98.3800%	0.4657%	0.9111%	0.0405%
<u>t</u>	<u>DOT</u>	<u>FWP Snow</u>	<u>FWP Boat</u>	<u>Aeronautics</u>		
<u>Fiscal</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>	<u>Percent</u>		
Actual	2000	0.01030%	0.02060%	0.05140%	0.01030%	
Actual	2001	0.01030%	0.02050%	0.05140%	0.01030%	
Actual	2002	0.01030%	0.01950%	0.04920%	0.01030%	
Actual	2003	0.01030%	0.02060%	0.05150%	0.01030%	
Actual	2004	0.01030%	0.02060%	0.05140%	0.01030%	
Actual	2005	0.01030%	0.02100%	0.05240%	0.01030%	
Actual	2006	0.01010%	0.02030%	0.05080%	0.01010%	
Forecast	2007	0.01010%	0.02030%	0.05080%	0.01010%	
Forecast	2008	0.01010%	0.02030%	0.05080%	0.01010%	
Forecast	2009	0.01010%	0.02030%	0.05080%	0.01010%	
<u>t</u>	<u>GF</u>	<u>DOT</u>	<u>FWP Snow</u>	<u>FWP Boat</u>	<u>Aeronautics</u>	<u>Off Highway</u>
<u>Fiscal</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000000	124.679120	0.599491	1.172918	0.052130
Actual	2001	0.000000	122.017676	0.582819	1.150251	0.051863
Actual	2002	0.000000	125.907096	0.603018	1.181094	0.052552
Actual	2003	0.000000	125.390592	0.603563	1.180857	0.052481
Actual	2004	0.000000	127.027523	0.611397	1.196224	0.053166
Actual	2005	0.000000	119.338308	0.575949	1.126371	0.050038
Actual	2006	0.000000	129.396116	0.594629	1.163307	0.051698
Forecast	2007	0.000000	129.923000	0.597000	1.168000	0.052000
Forecast	2008	0.000000	130.329000	0.635000	1.242000	0.055000
Forecast	2009	0.000000	130.858000	0.638000	1.247000	0.055000
<u>t</u>		Weed Gasoline	Snow Enforce. Gasoline	Snow Con-Ed. Gasoline	OHV Con-Ed. Gasoline	-
<u>Fiscal</u>		<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	
Actual	2000	0.013032	0.026065	0.065162	0.013032	
Actual	2001	0.012782	0.025441	0.063787	0.012782	
Actual	2002	0.013138	0.024943	0.063024	0.013138	
Actual	2003	0.013120	0.026270	0.065659	0.013120	
Actual	2004	0.013299	0.026570	0.066424	0.013292	
Actual	2005	0.012510	0.025528	0.063565	0.012510	
Actual	2006	0.012924	0.025951	0.064827	0.012924	
Forecast	2007	0.013000	0.026000	0.065000	0.013000	
Forecast	2008	0.014000	0.028000	0.069000	0.014000	
Forecast	2009	0.014000	0.028000	0.070000	0.014000	

Total Tax = Gas Effective \* Gas Gallons + Tank Effective \* Tank Gallons + Refunds

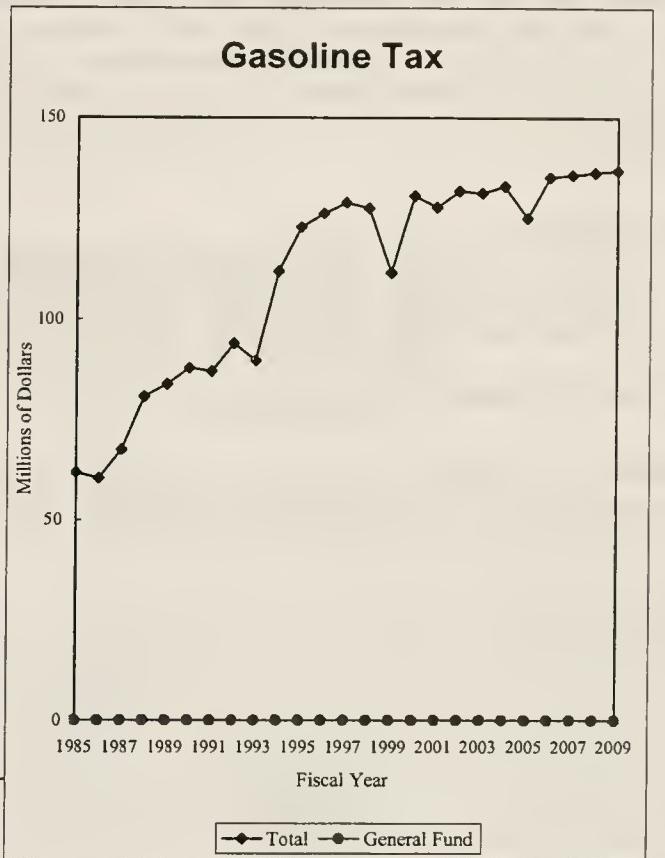
# Legislative Fiscal Division

## Revenue Estimate Profile

### Gasoline Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	61.880197	0.000000	Not App.
A 1986	60.481887	0.000000	Not App.
A 1987	67.631602	0.000000	Not App.
A 1988	80.889296	0.000000	Not App.
A 1989	83.951442	0.000000	Not App.
A 1990	87.893465	0.000000	Not App.
A 1991	87.110555	0.000000	Not App.
A 1992	94.018718	0.000000	Not App.
A 1993	89.738559	0.000000	Not App.
A 1994	111.863525	0.000000	Not App.
A 1995	122.796443	0.000000	Not App.
A 1996	126.214407	0.000000	Not App.
A 1997	128.847545	0.000000	Not App.
A 1998	127.512638	0.000000	Not App.
A 1999	111.536744	0.000000	Not App.
A 2000	130.551884	0.000000	Not App.
A 2001	127.754608	0.000000	Not App.
A 2002	131.730649	0.000000	Not App.
A 2003	131.269072	0.000000	Not App.
A 2004	132.962343	0.000000	Not App.
A 2005	125.076432	0.000000	Not App.
A 2006	135.191541	0.000000	Not App.
F 2007	135.742000	0.000000	Not App.
F 2008	136.295000	0.000000	Not App.
F 2009	136.850000	0.000000	Not App.



**Data Source(s):** SABHRS, Department of Transportation

**Contacts:** Department of Transportation

# Legislative Fiscal Division

## Revenue Estimate Profile

### GVW and Other Fees

**Revenue Description:** There are two types of revenue derived from over 20 different sources classified under gross vehicle weight (GVW) and other income: fee revenue and permit revenue. The majority of revenue is derived from a variety of GVW fees, including those fees collected by counties when vehicles are registered. Miscellaneous permits comprise the second income component under this source. Enactment of the federal "Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users" replaces the single state registration system (SSRS) with a new uniform carrier registration program. Elimination of the SSRS (effective January 1, 2007) eliminates the \$5 state fee that is deposited to the general fund. The revenue will be replaced with revenue from a federal fee. Montana is expected to receive revenue from this fee in the same amount of the lost SSRS revenue.

#### Statutory Reference:

Tax Rate – Multiple, single state registration fee (Administrative Rules 18.8.202)

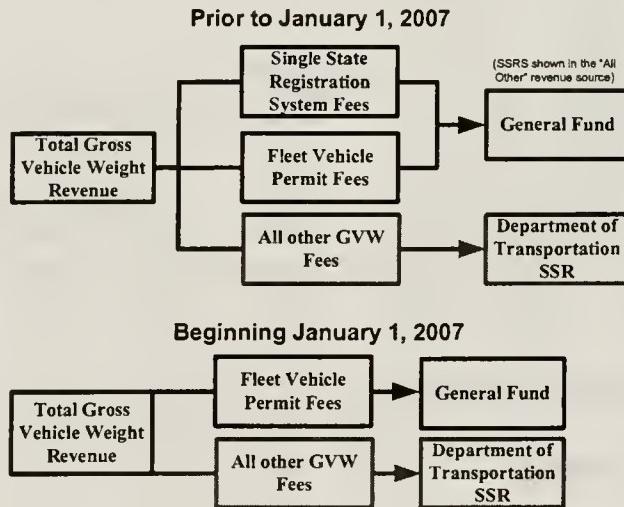
Tax Distribution (MCA) – Multiple, single state registration fee (61-3-708 & 710)

Date Due – upon registration and annually thereafter or prior to the new year if permit is wanted by then (61-3-708)

**Applicable Tax Rate(s):** Various. Single state registration fee - \$5.00

**Distribution:** The majority of GVW revenue is allocated to the Department of Transportation. The single state registration system fee is deposited to the general fund and is accounted for in the "All Other General Fund Revenue" profile. Revenue from this fee will terminate January 1, 2007 due to passage of federal highway legislation.

#### Distribution Chart:



**Collection Frequency:** Various

**% of Total General Fund Revenue:** 0.00% (the general portion is included in "All Other General Fund")

#### Revenue Estimate Methodology:

##### Data

The data used in the gross weight vehicle (GVW) tax estimate are obtained from the state accounting system (SABHRS). The SABHRS data provides the historic collection data for the 13 different types of fees and permits. No adjustments are required on the raw data in preparation for analysis.

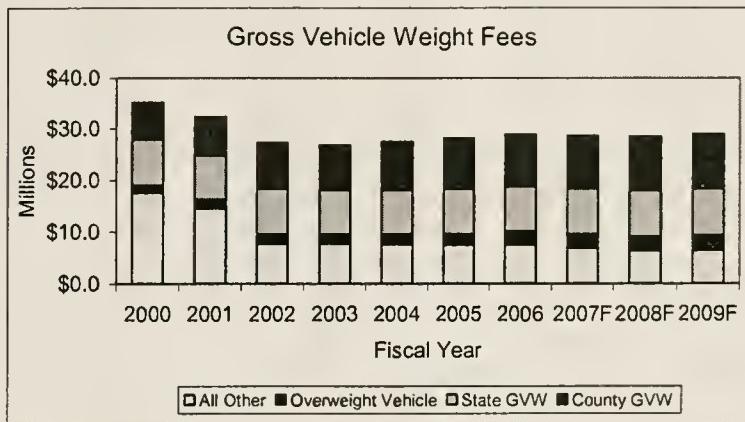
# Legislative Fiscal Division

## Revenue Estimate Profile

### GVW and Other Fees

#### Analysis

The state of Montana imposes many fees and requires several types of permits based on the gross weight of commercial and large privately owned vehicles. In preparing the GVW estimate, 13 sources of fees and permit revenues are analyzed. Most of the sources demonstrate a payment history that can be adequately measured by applying a growth rate to a base year (fiscal 2006). The largest sources of revenue in the GVW are the gross vehicle weight fees collected by both counties and the state. The figure below demonstrates the relative importance of these two sources to the overall GVW collections.



Both county and state GVW fees are forecast with a compound growth rate and are expected to grow by 1.5 percent over the next biennium. Applying the growth rate to fiscal 2006 revenues, the resulting estimates for county GVW are \$10.40 million in fiscal 2007, \$10.56 million in fiscal 2008, and \$10.72 million in fiscal 2009. The estimates for state GVW are \$8.67 million, \$8.82 million, and \$8.95 million for fiscal 2007 through fiscal 2009, respectively. Another large source of revenue included in the GVW is the fee for overweight vehicles. This fee is estimated with a three-year moving average growth rate. When applied to the base, collections of overweight vehicle fees are expected to be \$2.75 million, \$2.86 million, and \$2.97 million for fiscal 2007 through fiscal 2009. The all other GVW fees, as shown in the figure above, are a collection of 10 different fees and permit types. While each of these fees is estimated separately, in combination the fees are expected to decline by 8.27 percent in fiscal 2007 and 8.74 percent in fiscal 2008, while increasing by 1.17 percent in fiscal 2009. Declines in all other fees are related to the elimination of the single state registration system (resulting from the passage of new federal legislation). When summed, all other fees are expected to be \$6.86 million in fiscal 2007, \$6.26 million in fiscal 2008, and \$6.33 million in fiscal 2009. Finally, the estimates for each of the GVW fees and permit collections are combined to produce the total estimate for GVW fees, \$28.7 million, \$28.5 million, and \$29.0 million in fiscal 2007 through fiscal 2009, respectively.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### GVW and Other Fees

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	GVW <u>Millions</u>	SSRS <u>Millions</u>	Form 3 <u>Millions</u>	Trip <u>Millions</u>	County <u>Millions</u>
Actual	2000	35.210631	1.275935	8.852775	1.275935	0.855910	0.880540	7.321056
Actual	2001	32.377206	1.252221	8.363842	1.252221	0.812782	0.844991	7.681434
Actual	2002	27.265844	1.044512	8.813717	1.044512	0.859843	0.440875	8.933475
Actual	2003	26.818248	1.183822	8.503261	1.183822	1.043854	0.441475	8.800388
Actual	2004	27.499842	1.215079	8.586289	1.215080	1.006892	0.455112	9.397954
Actual	2005	28.149492	1.168512	8.690129	1.168512	0.992080	0.514477	9.919972
Actual	2006	28.916122	1.330190	8.554869	1.336310	1.059142	0.541849	10.242789
Forecast	2007	28.693000	0.668000	8.686213	0.668155	1.059142	0.541849	10.400048
Forecast	2008	28.497000	0.000000	8.819573	0.000000	1.059142	0.541849	10.559721
Forecast	2009	28.982000	0.000000	8.954981	0.000000	1.059142	0.541849	10.721846

	<u>t</u> <u>Fiscal</u>	Sales <u>Millions</u>	Overweight <u>Millions</u>	Special <u>Millions</u>	Restricted <u>Millions</u>	Fuel <u>Millions</u>	LPG <u>Millions</u>	Other <u>Millions</u>
Actual	2000	12.533721	1.459102	0.918654	0.000000	0.105370	0.000000	1.007568
Actual	2001	9.923131	1.768619	0.953853	0.000000	0.124626	0.000000	0.651707
Actual	2002	-0.639815	1.845340	0.902845	0.000000	0.107580	0.000000	4.957472
Actual	2003	0.000000	1.815747	0.921775	0.000000	0.105750	0.000000	4.002176
Actual	2004	0.000000	1.902635	0.977915	0.000000	0.108120	0.000000	3.849845
Actual	2005	0.000000	2.075045	1.029744	0.000000	0.110360	0.000000	3.649173
Actual	2006	0.000000	2.645635	1.104107	0.000000	0.117720	0.000000	3.313701
Forecast	2007	0.000000	2.751146	1.161076	0.000000	0.111272	0.000000	3.313701
Forecast	2008	0.000000	2.860865	1.230041	0.000000	0.111350	0.000000	3.313701
Forecast	2009	0.000000	2.974960	1.302639	0.000000	0.112097	0.000000	3.313701

Total Tax = GVW + SSRS + Form 3 + Trip + County + Sales + Overweight + Special + Restricted +  
Fuel + LPG + Other

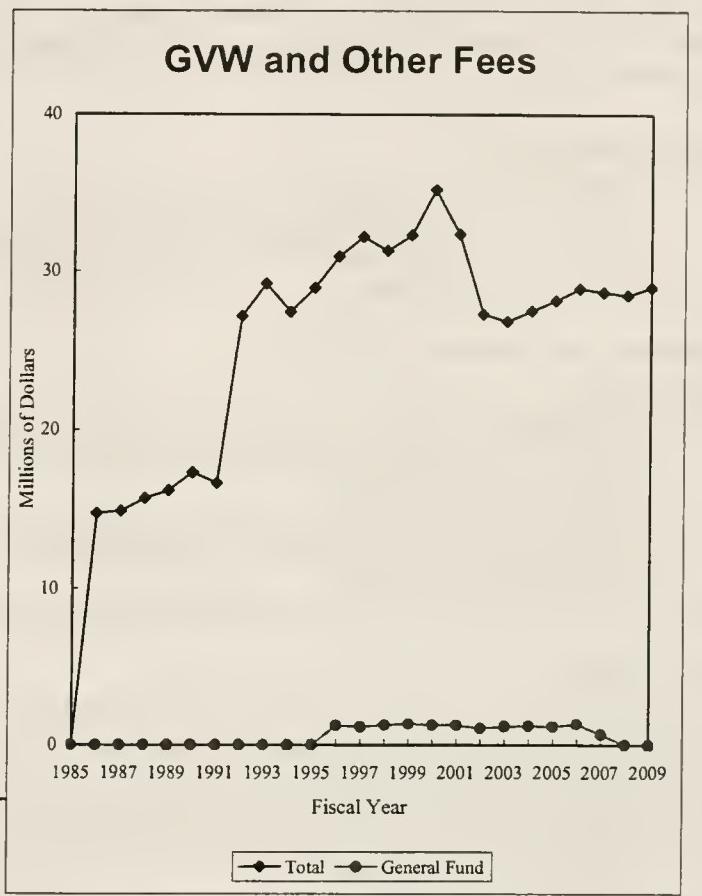
# Legislative Fiscal Division

## Revenue Estimate Profile

### GVW and Other Fees

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	14.750038	0.000000	Not App.
A 1987	14.912864	0.000000	Not App.
A 1988	15.699160	0.000000	Not App.
A 1989	16.197170	0.000000	Not App.
A 1990	17.314355	0.000000	Not App.
A 1991	16.652775	0.000000	Not App.
A 1992	27.135371	0.000000	Not App.
A 1993	29.201031	0.000000	Not App.
A 1994	27.408456	0.000000	Not App.
A 1995	28.957323	0.000000	Not App.
A 1996	30.946303	1.241263	Not App.
A 1997	32.207050	1.143078	-7.91%
A 1998	31.303824	1.266223	10.77%
A 1999	32.316004	1.332595	5.24%
A 2000	35.210631	1.275935	-4.25%
A 2001	32.377206	1.252221	-1.86%
A 2002	27.265844	1.044512	-16.59%
A 2003	26.818248	1.183822	13.34%
A 2004	27.499842	1.215079	2.64%
A 2005	28.149492	1.168512	-3.83%
A 2006	28.916122	1.330190	13.84%
F 2007	28.693000	0.668000	-49.78%
F 2008	28.497000	0.000000	-100.00%
F 2009	28.982000	0.000000	Not App.



**Data Source(s):** SABHRS, Department of Transportation

**Contacts:** Department of Transportation

# Legislative Fiscal Division

## Revenue Estimate Profile

### Liquor Excise and License Tax

**Revenue Description:** The Department of Revenue (DOR) is authorized to sell liquor to retail liquor establishments throughout the state. These sales result in profits and taxes that are deposited in various state accounts. An excise tax is collected both on liquor sold by DOR and for liquor purchased outside the state, by airlines and railroads (carriers), for consumption within the state. The department also collects a license tax on the sale of liquor. A portion of the excise tax revenue is returned to Indian tribes through an agreement with the department.

#### Statutory Reference:

Tax Rate (MCA) – Excise tax (16-1-401), License tax (16-1-404)

Tax Distribution (MCA) – Excise tax (16-1-401 & 16-2-108), License tax (16-1-404)

Date Due – Excise tax is collected at the time of sale and distributed by the 10<sup>th</sup> day of each month. License tax is collected at the time of sale.

#### Applicable Tax Rate(s):

##### Excise Tax Rate

- 16.0% of the retail selling price on all liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed, and sold more than 200,000 proof gallons of liquor nationwide in the calendar year preceding imposition of the tax
- 13.8% of the retail selling price on all liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed, and sold not more than 200,000 proof gallons of liquor nationwide in the calendar year preceding imposition of the tax

The amount of excise taxes paid by carriers includes additional factors related to departures and passenger miles.

##### License Tax Rate

- 10.0% of the retail selling price on all liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed and that sold more than 200,000 proof gallons of liquor nationwide in the calendar year preceding imposition of the tax
- 8.6% of the retail selling price on all liquor sold and delivered in the state by a company that manufactured, distilled, rectified, bottled, or processed and that sold not more than 200,000 proof gallons of liquor nationwide in the calendar year preceding imposition of the tax

The license tax must be charged and collected on all liquor brought into the state and taxed by DOR. The retail selling price must be computed by adding to the cost of the liquor the state markup as designated by the department. The license tax must be figured in the same manner as the state excise tax and is in addition to the state excise tax.

#### Distribution:

Excise tax revenue, less amounts distributed to Indian tribes, is deposited in the enterprise fund for transfer to the general fund.

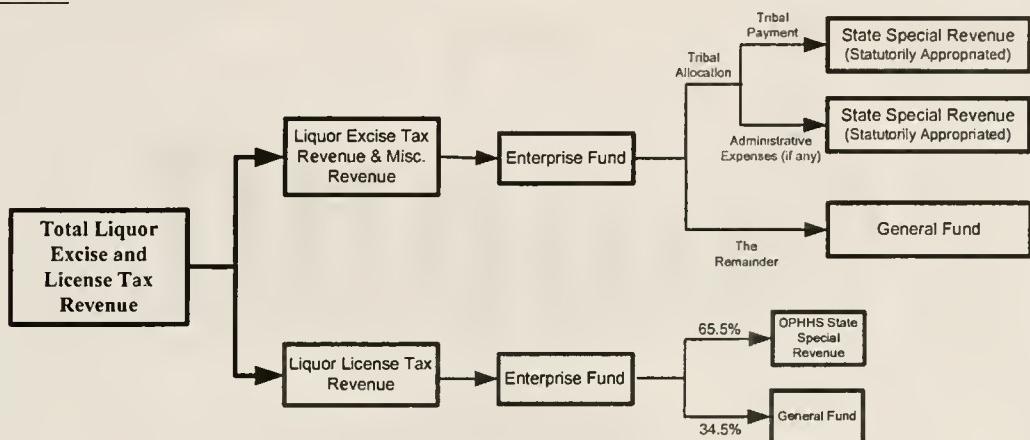
License tax revenue is allocated to the enterprise fund for transfer 34.5 % to the general fund and 65.5% to the Department of Public Health and Human Services for alcohol treatment and rehabilitation programs.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Liquor Excise and License Tax

#### Distribution Chart:



**Collection Frequency:** Both the liquor excise tax and the license tax on liquor are collected at the time of the sale and delivery of liquor. Deposits to the general fund are made monthly.

#### % of Total General Fund Revenue:

- FY 2004 – 0.78%
- FY 2005 – 0.75%
- FY 2006 – 0.74%

#### Revenue Estimate Methodology:

##### Data

To create the liquor excise and the liquor license tax projections, the data are obtained from the Department of Revenue (DOR), Global Insight, and the state accounting system (SABHRS). The DOR data provides the details of monthly liquor sales and costs. Global Insight provides estimates for the change in the consumer price index (CPI), and historic tax revenue data from SABHRS are used to confirm the adequacy of the estimates.

Total liquor taxes are made up of two taxes, an excise tax and a license tax. While each tax has a different rate, both taxes are assessed on the retail sales price of the commodity. The tax rate is lower for companies that produce less than 200,000 gallons. However, for the purpose of estimating future liquor taxes, the tax rates for liquor sales by companies who produce less than 200,000 gallons of liquor are not considered. Consequently, the rate of the excise tax is estimated at 16 percent of the price, and the license tax is estimated at 10 percent of the price.

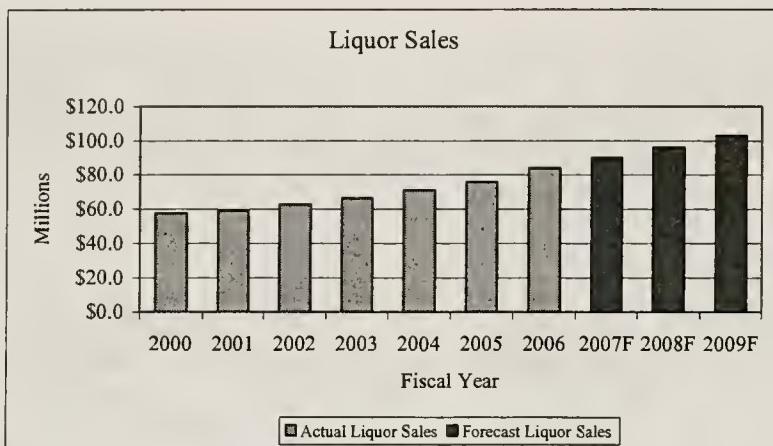
##### Analysis

Analysis shows a constant upward trend in liquor sales in Montana, as shown in the figure below.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Liquor Excise and License Tax

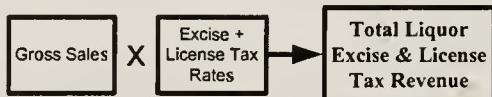


The estimate of liquor taxes is calculated by applying growth rates to base year values of both the amount of liquor units sold and the per unit price of liquor. The expected sales of liquor units are estimated by applying a three-year average growth factor. The growth factor for the forecast period is 5.46 percent. The growth rate for the price per liquor unit is estimated using the past year price as the base. This price is adjusted in subsequent years by the change in the CPI, as estimated by Global Insight. The calculated growth rates are 4.9 percent in fiscal 2007, 3.8 percent in fiscal 2008, and 3.4 percent in fiscal 2009. When total units times sales per unit are multiplied, total estimated gross liquor sales in Montana are \$90.0 million, \$96.2 million, and \$102.7 million for fiscal years 2007 through 2009, respectively. The final step is to apply both tax rates to the estimate of liquor sales to determine the estimate for the combined liquor excise and license taxes. This method produces total tax estimates of \$18.6 million in fiscal 2007, \$19.9 million in fiscal 2008, and \$21.2 million in fiscal 2009.

#### Adjustment and Distribution

The last step in producing the estimate for liquor taxes is to calculate the tax distributions. Liquor taxes are distributed to the general fund after a reduction for tribal reimbursements. At this time, three of the seven tribal governments receive liquor tax dollars, Blackfeet, Fort Belknap, and Fort Peck. These tribal governments adhere to the Montana liquor tax laws. The state of Montana collects the tribes' portion of the liquor taxes and quarterly distributes those collections based on a formula (per capita liquor consumption times tribal membership times the Montana tax rate). After reducing the excise tax revenue by the tribal distribution, the revenue is distributed to the enterprise fund and then to the general fund. The license tax is distributed to the enterprise fund and then to the general fund and the Department of Public Health and Human Services.

#### **Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Liquor Excise and License Tax

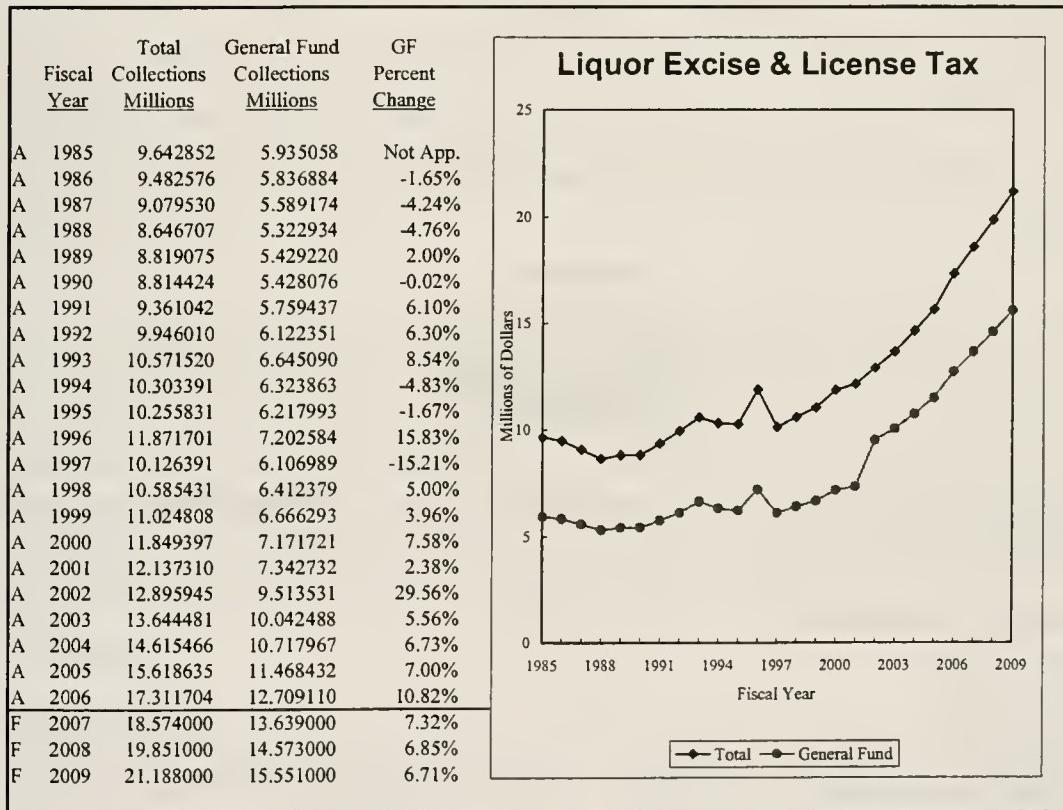
#### Revenue Estimate Assumptions:

	<u>Fiscal Year</u>	Total Tax Millions	GF Tax Millions	Tribal Millions	Gross Sales Millions	Excise Rate Percent	License Rate Percent	GF License Allocation Percent
Actual	2000	11.849397	7.171721	0.118276	45.609283	0.160000	0.100000	
Actual	2001	12.137310	7.342732	0.126171	46.701813	0.160000	0.100000	
Actual	2002	12.895945	9.513531	0.133456	49.615021	0.160000	0.100000	0.344908
Actual	2003	13.644481	10.042488	0.165323	52.479352	0.160000	0.100000	0.345000
Actual	2004	14.615466	10.717967	0.216395	56.212333	0.160000	0.100000	0.345000
Actual	2005	15.618635	11.468432	0.216693	60.068788	0.160000	0.100000	0.345000
Actual	2006	17.311704	12.709110	0.242086	66.600387	0.160000	0.100000	0.345000
Forecast	2007	18.574000	13.639000	0.256000	71.438795	0.160000	0.100000	0.345000
Forecast	2008	19.851000	14.573000	0.277000	76.350772	0.160000	0.100000	0.345000
Forecast	2009	21.188000	15.551000	0.299000	81.492041	0.160000	0.100000	0.345000

Total Tax = Gross Sales \* Excise Rate + Gross Sales \* License Rate

GF Tax = Gross Sales \* Excise Rate - Tribal + Gross Sales \* License Rate \* GF License Allocation

#### Revenue Projection:



Data Source(s): SABHRS, Department of Revenue

Contacts: Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Liquor Profits

**Revenue Description:** The Department of Revenue (DOR) is authorized to sell liquor and fortified wine to retail liquor establishments throughout the state. These sales result in profits that are deposited in the general fund. Tax revenues generated from liquor excise and license taxes, as well as wine taxes, are estimated under separate methodologies.

Liquor profits received by the state are primarily generated by a mark-up on the sale of liquor and fortified wine, less costs such as commissions and discounts. House Bill 348 enacted by the 2001 legislature phased-in liquor store commission increases based on sales volume over a three-year period beginning fiscal 2003. A 40.0 percent mark-up is added to the state's base cost for liquor. The state's mark-up percentage on the base cost of fortified wine (excluding hard cider) varies according to the size of the container:

- 1.5 liter – 42% plus \$0.27/bottle
- 1.0, .720 and .750 liter – 51% plus \$0.12/bottle
- .375 liter – 59% plus \$0.02/bottle

The mark-up percentage for both liquor and wine is determined by administrative rule (see ARM 42.11.104).

#### Statutory Reference:

Tax Rate – Authority to markup the price is found in 16-1-404(2) and ARM 42.11.104

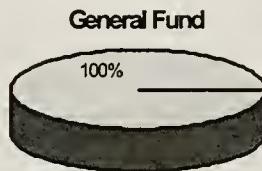
Tax Distribution (MCA) – 16-2-108(4)

Date Due – NA

#### Applicable Tax Rate(s): N/A

**Distribution:** Liquor profits are deposited in the general fund annually.

#### Distribution Chart:



**Collection Frequency:** Payment for liquor purchases are due within 60 days of the invoice date and revenue is deposited into an enterprise fund.

#### % of Total General Fund Revenue:

FY 2004 – 0.47%

FY 2005 – 0.43%

FY 2006 – 0.44%

#### Revenue Estimate Methodology:

##### Data

The estimate for the liquor profits is dependent on total liquor sales, the cost of goods sold, and other operational expenditures. Data are obtained from the Department of Revenue (DOR), the state budget system (MBARS), and the state accounting system (SABHRS). DOR provides monthly historical data for the total liquor sales, the number of units of liquor sold, and the average price for each unit of liquor. MBARS provides the present law operational budget for the DOR liquor division. SABHRS data provides a historic breakout of liquor expenses and is used as a comparison to check the adequacy of the estimate.

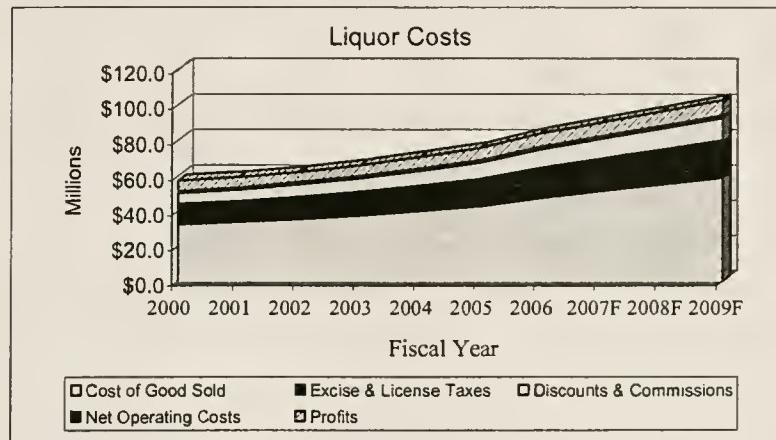
# Legislative Fiscal Division

## Revenue Estimate Profile

### Liquor Profits

#### Analysis

As seen in the figure below, the profits are a small part of the total liquor sales. Since fiscal 2000, profits have averaged about 9.3 percent of liquor sales. In the forecast period, profits are expected to be approximately 8.4 percent of total sales.



The starting point in estimating liquor profits is the gross sales of liquor. The steps in determining the liquor profits are as follows:

- Determine units
- Determine total sales value (units \* price per unit)
- Determine costs of goods sold (units \* cost per unit)
- Calculate discounts and commissions
- Obtain operating budgets
- Calculate taxes

Liquor profits are estimated by reducing total liquor sales (for the methodology of total liquor sales, see the "Liquor Excise and License Tax" revenue section) by all the costs of doing business. Gross liquor sales are expected to be \$90.0 million in fiscal 2007, \$96.2 million in fiscal 2008, and \$102.7 million in fiscal 2009. For the purpose of estimating liquor profits, the cost of doing business includes the cost of the goods sold (cost of liquor and transportation), the taxes (excise and license), discounts and commissions, and net operating costs (program administration). The cost of goods sold is expected to be \$51.2 million, \$55.0 million, and \$58.8 million for fiscal years 2007 through fiscal 2009, respectively. All other costs of the liquor operation are expected to amount to \$31.2 million, \$33.2 million, and \$35.3 million, for fiscal 2007 through fiscal 2009, respectively, in the MBARS DOR budget. The total expense of the DOR liquor operations is budgeted at \$83.5 million in fiscal 2007, \$88.2 million in fiscal 2008, and \$94.1 million in fiscal 2009. When costs are subtracted from total sales, the resulting estimate for liquor profits is \$7.6 million in fiscal 2007, \$8.0 million in fiscal 2008, and \$8.5 million in fiscal 2009.\*

\* Amounts are rounded.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

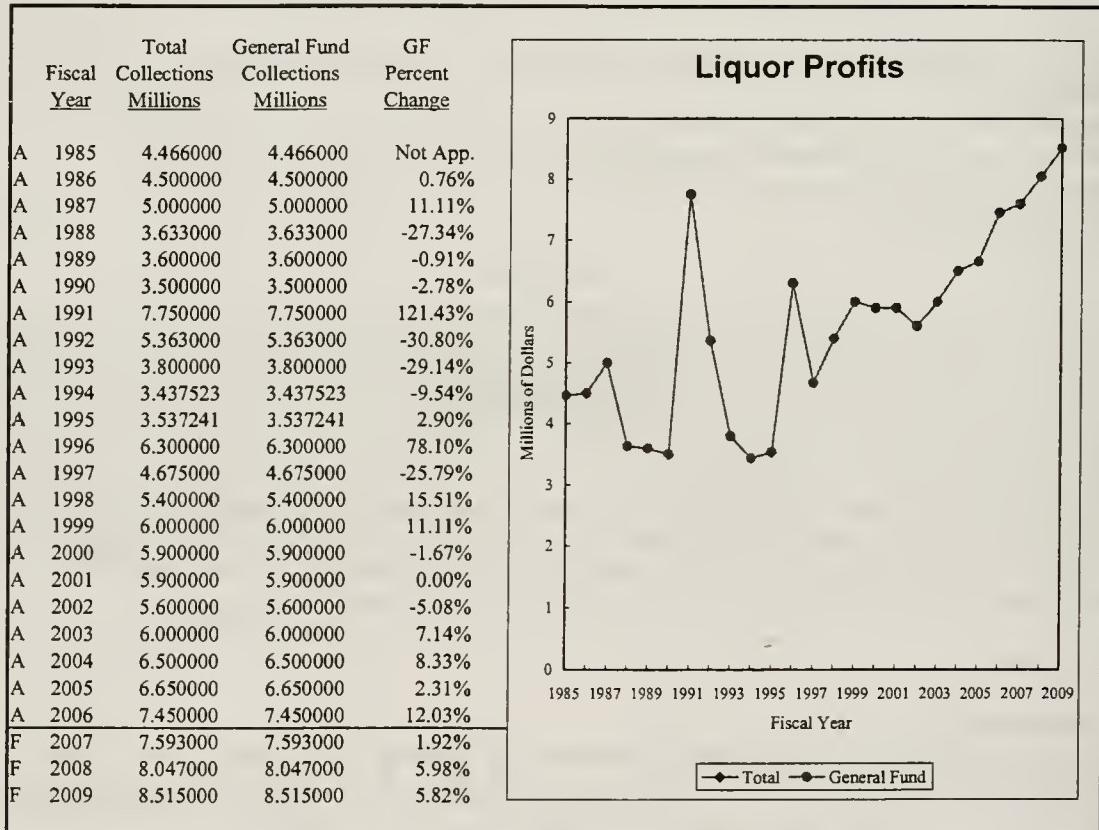
### Liquor Profits

#### Revenue Estimate Assumptions:

	<u>Fiscal</u>	<u>GF Profit Millions</u>	<u>Gross Sales Millions</u>	<u>Excise License Tax Millions</u>	<u>Discount Commission Millions</u>	<u>Cost of Goods Millions</u>	<u>Operation Costs Millions</u>	<u>Other Income Millions</u>
Actual	2000	5.900000	57.467696	11.853082	6.003244	32.318259	1.202429	0.039667
Actual	2001	5.900000	58.844284	12.141061	6.134579	33.666541	1.301124	0.003416
Actual	2002	5.600000	62.514926	12.898347	6.797458	35.279453	1.477563	0.008387
Actual	2003	6.000000	66.123983	13.643474	7.432835	37.321005	1.484600	0.007831
Actual	2004	6.500000	70.827539	14.613826	8.165280	39.933421	1.506793	0.009589
Actual	2005	6.650000	75.686673	15.616350	9.161860	42.693308	1.566587	0.013557
Actual	2006	7.450000	83.916488	17.309889	10.147568	47.324246	1.676123	0.019051
Forecast	2007	7.593000	90.012882	18.574087	10.885178	51.247374	1.731815	0.019051
Forecast	2008	8.047000	96.201973	19.851201	11.633619	54.959595	1.729232	0.019051
Forecast	2009	8.515000	102.679972	21.187931	12.416998	58.842362	1.736035	0.019051

GF Profits = Gross Sales - Excise/License Tax - Discount/Commission - Cost of Goods - Operation Costs + Other

#### Revenue Projection:



Data Source(s): SABHRS, MBARS, Department of Revenue

Contacts: Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Lottery Profits

**Revenue Description:** The Montana state lottery was enacted by legislative referendum and became effective January 1, 1987. The first lottery game was launched in June 1987. A lottery is generally defined as "any procedure in which one or more prizes are distributed among persons who have paid for a chance to win a prize". The games are administered by the Department of Administration. By law, a minimum of 45.0 percent of the money paid for tickets or chances must be paid out as prizes.

Lottery revenue is derived from ticket sales, sales agents license fees, and unclaimed prizes. Sales revenue is initially deposited into an enterprise fund known as the state lottery fund. After paying prizes, ticket costs, commissions, and other operating costs, any profits are transferred to the general fund.

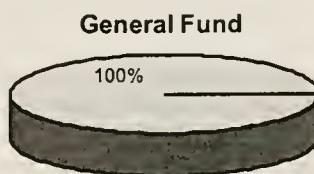
#### Statutory Reference:

Tax Rate – NA  
Distribution (MCA) – 23-7-402(3)  
Date Due – quarterly (23-7-402(3))

**Applicable Tax Rate(s):** There is no actual tax rate involved. However, applicants for sales agent licenses are charged a \$50.00 fee to cover the cost of investigating and processing the applications.

**Distribution:** All gross lottery revenue not used for prizes, commissions, administration, and operating expenses, together with the interest earned (on the gross revenue while the gross revenue is in the enterprise fund), is considered net revenue. This net revenue is transferred to the general fund. Senate Bill 55, passed by the 1999 legislature, requires the Department of Commerce to submit a biennium budget for the state lottery fund for appropriation by the legislature. By determining the amount appropriated, the legislature has better control over the amount transferred to the general fund.

#### Distribution Chart:



**Collection Frequency:** Lottery revenues are collected on an on-going basis. Transfers to the general fund are usually made quarterly.

#### % of Total General Fund Revenue:

FY 2004 – 0.59%  
FY 2005 – 0.41%  
FY 2006 – 0.53%

#### Revenue Estimate Methodology:

The estimate for lottery profits is derived by estimating the various sources of revenue to the enterprise fund and then estimating the various expenses of the fund. Revenues less expenses are considered net revenue (profits).

# Legislative Fiscal Division

## Revenue Estimate Profile

### Lottery Profits

#### Data

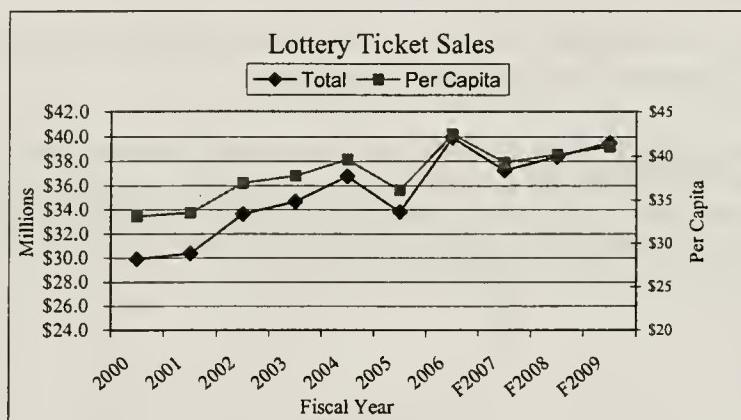
Data from SABHRS provide a history of the enterprise fund revenues and expenditures. Annual reports received from the Montana Lottery Commission provide additional financial information about the fund. Lottery personnel are contacted for their views on trends in lottery tickets sale and other factors that may influence revenues or expenditures. The state budgeting system is used to obtain estimates of appropriated administrative expenses. Montana population statistics from Global Insight (see "Montana Population" in the Overview section) are used to derive per capita ticket sales.

#### Analysis

The estimate for lottery profits is derived by first estimating the four revenue components and then the two expenditure components.

#### Revenue

1. Ticket sales – This component comprises the large majority of lottery revenue. To derive this estimate, a per capita ticket sales amount is multiplied by the estimate of Montana's population. The average of the per capital ticket sales for FY 2005 and FY 2006 is used as a proxy for each of the subsequent years to be estimated.

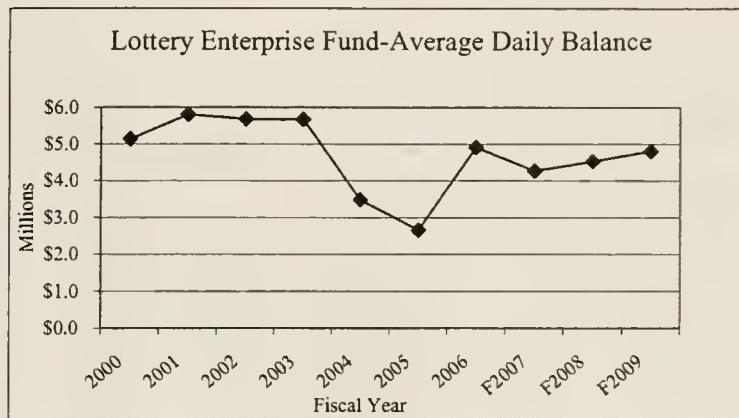


2. Licenses – Applicants who apply for a sales agent license pay a \$50 license fee. To estimate this revenue component, the amount from the last known fiscal year is used for all subsequent years.
3. Interest earnings – Money in the lottery enterprise fund as well as Montana's share of money held by the Multi-State Lottery Association, earns interest at the short-term interest rate and is deposited to the enterprise fund. To estimate interest earnings, the average daily balance is multiplied by the short-term interest rate. The average daily balance is determined by: a) first, deriving the balance for the last known fiscal year by dividing known interest earnings by the known short-term interest rate; b) second, developing a balance ratio between the balance derived from (a) above and ticket sales from the last known fiscal year; c) multiplying this ratio by the ticket sales estimate (from number 1 above) for each subsequent year to derive the average daily balance. Once the balance has been estimated, it is multiplied by the applicable short-term interest rate (see the "Treasury Cash Account" revenue source for details on the development of this rate).

# Legislative Fiscal Division

## Revenue Estimate Profile

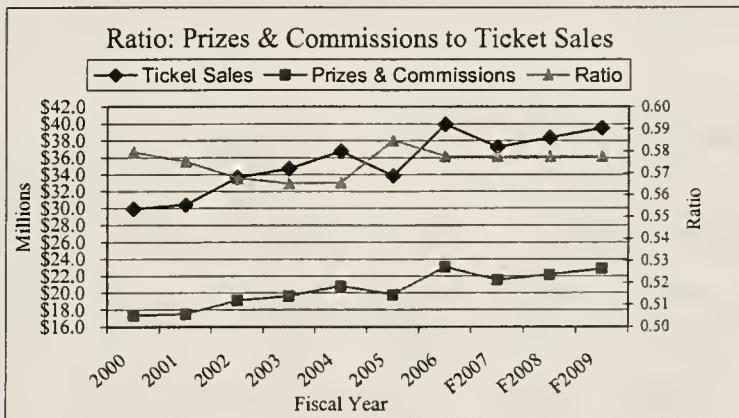
### Lottery Profits



4. Other – The small amounts of miscellaneous revenue from the last known fiscal year is used for all subsequent years.

#### Expenditures

1. Prizes and Commissions – Since the ratio of prizes and commissions to ticket sales is relative constant, this ratio is computed for all years with actual data. The ratio from the last known year is multiplied by the estimated amount of ticket sales (see above) for each subsequent fiscal year to derive the estimate of prizes and commissions.

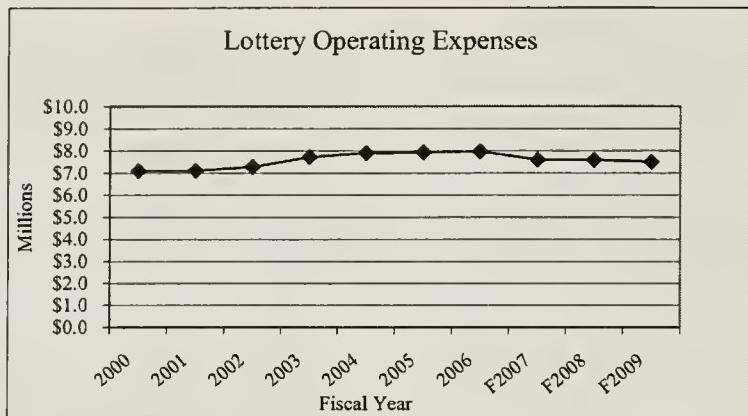


2. Operations – To estimate the operational costs for the three fiscal years in question, budget submissions by the Lottery Commission, as shown on the state budgeting system, are used.

# Legislative Fiscal Division

## Revenue Estimate Profile

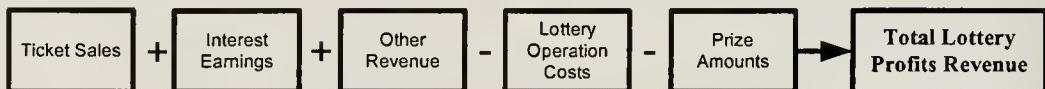
### Lottery Profits



#### Adjustments and Distribution

Once total revenue and total expenditures have been estimated, the difference is the expected profit. All profits are deposited to the general fund.

#### **Forecast Methodology:**



#### **Revenue Estimate Assumptions:**

	<u>Fiscal</u>	<u>Total Profit Millions</u>	<u>GF Profits Millions</u>	<u>Sales Millions</u>	<u>Interest Millions</u>	<u>Other Millions</u>	<u>Operating Millions</u>	<u>Prizes Millions</u>
Actual	2000	5.840985	5.840985	29.899809	0.278620	0.075465	7.091950	17.320959
Actual	2001	6.137493	6.137493	30.366526	0.275320	0.056324	7.098631	17.462046
Actual	2002	7.467030	7.467030	33.632276	0.145685	0.039096	7.264246	19.085781
Actual	2003	7.453281	7.453281	34.682494	0.077164	0.014065	7.721733	19.598709
Actual	2004	8.115602	8.115602	36.737657	0.043993	0.002536	7.897710	20.770874
Actual	2005	6.222555	6.222555	33.811245	0.063414	0.030023	7.912905	19.769222
Actual	2006	9.110455	9.110455	39.918414	0.199918	0.010548	7.962362	23.056063
Forecast	2007	8.345000	8.345000	37.231473	0.199406	0.010548	7.592722	21.504154
Forecast	2008	8.838000	8.838000	38.347539	0.208324	0.010548	7.580451	22.148772
Forecast	2009	9.414000	9.414000	39.489039	0.218942	0.010548	7.497295	22.808079

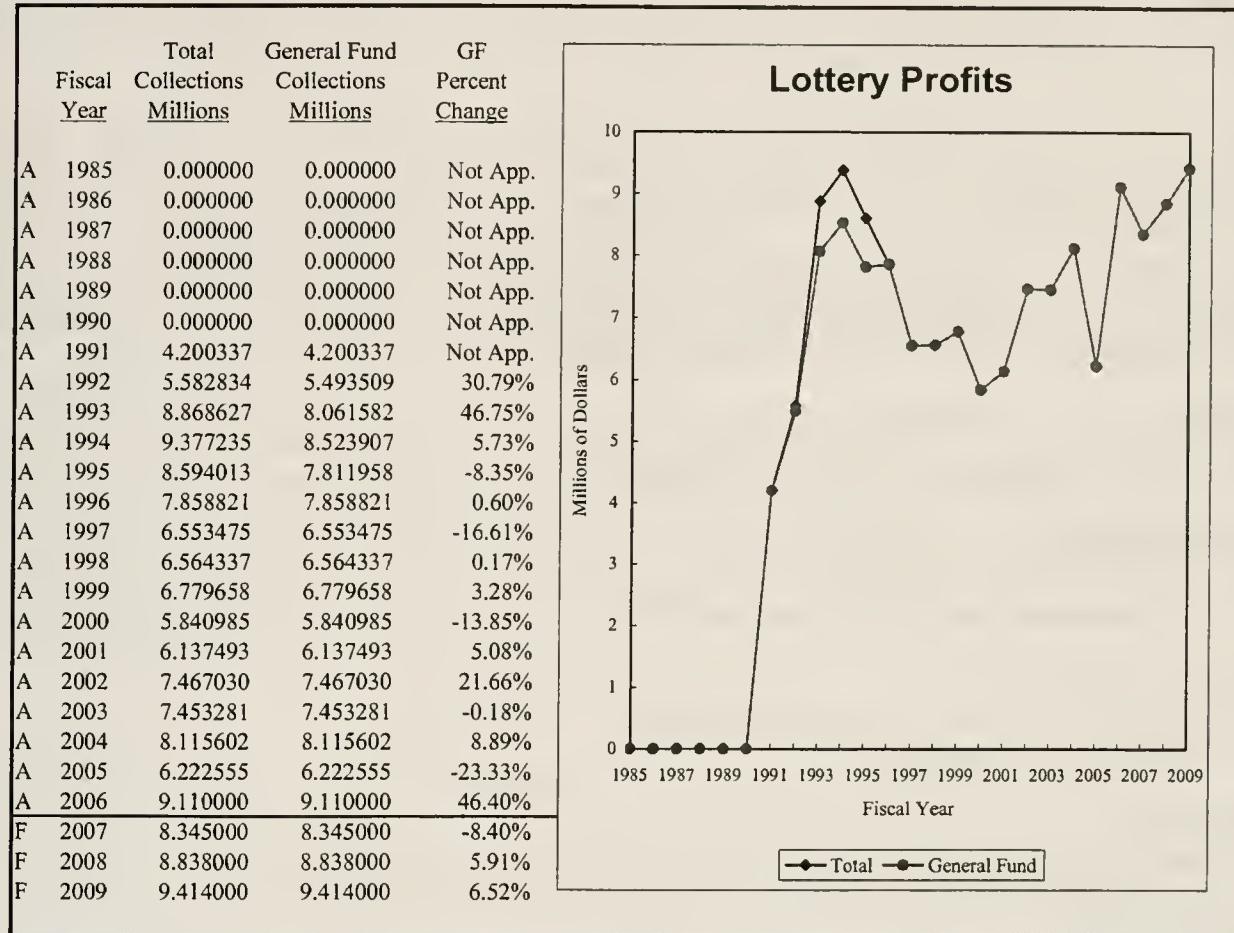
$$\text{Total Profits} = \text{Sales} + \text{Interest} + \text{Other} - \text{Operating} - \text{Prizes}$$

# Legislative Fiscal Division

## Revenue Estimate Profile

### Lottery Profits

#### Revenue Projection:



**Data Source(s):** SABHRS, MBARS, Department of Revenue, Department of Administration - Montana Lottery

**Contacts:** Department of Administration

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Tax

**Revenue Description:** The tobacco tax is an excise tax on tobacco products sold in Montana. Cigarettes are not subject to the tobacco tax. The tax is considered a direct tax on retail consumers, but is collected by the wholesaler. Tobacco products shipped from Montana and destined for retail sale and consumption outside the state are not subject to the tax.

Beginning May 1, 2003, the Fifty-eighth Legislature passed SB 407 that doubled the tax on all tobacco products other than cigarettes and moist snuff from 12.5 percent to 25.0 percent of the wholesale price. Furthermore, moist snuff is now taxed individually, increasing the rate from the equivalent of \$0.28 an ounce to \$0.35 an ounce. Beginning January 1, 2005, the electorate approved I-149 that raised the tax on other tobacco products to 50 percent of the wholesale price and moist snuff to \$0.85 per ounce. Wholesalers are allowed a discount of 2.5 percent, until January 1, 2005 when the discount will be reduced to 1.5 percent, to cover collection and administrative expenses. The wholesaler is entitled to a refund for tobacco products that remain unsold. I-149 adjusted distributions to allow half of the tax revenues to flow into the state general fund and half to flow into a new state special revenue fund for health and Medicaid initiatives.

The state has tobacco revenue sharing agreements with five tribes in Montana. In the agreements with the Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow tribes, the state collects the tax imposed by the tribes and distributes the revenue to the tribes on a quarterly basis. Indian consumers of tobacco on other reservations are exempt from paying the tobacco tax.

#### Statutory Reference:

Tax Rate (MCA) – 16-11-111(7)

Tax Distribution (MCA) – 16-11-114(2), 16-11-119(3)

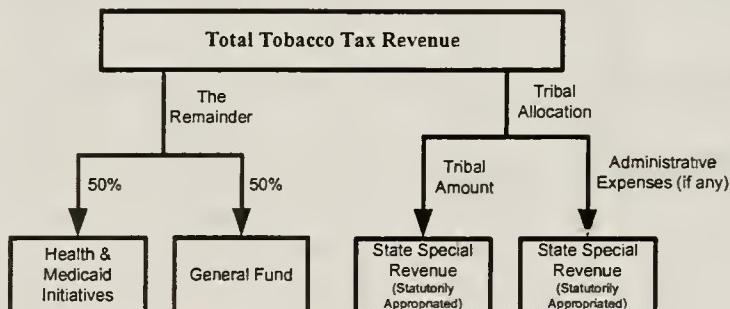
#### Applicable Tax Rate(s):

- Tobacco products - 50.0 percent of the wholesale price
- Moist snuff - \$0.85 per ounce

#### Distribution:

- 50% to a state special revenue fund to be used of health and Medicaid initiatives
- 50% to the general fund

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 0.26%

FY 2005 – 0.26%

FY 2006 – 0.26%

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Tax

#### Revenue Estimate Methodology:

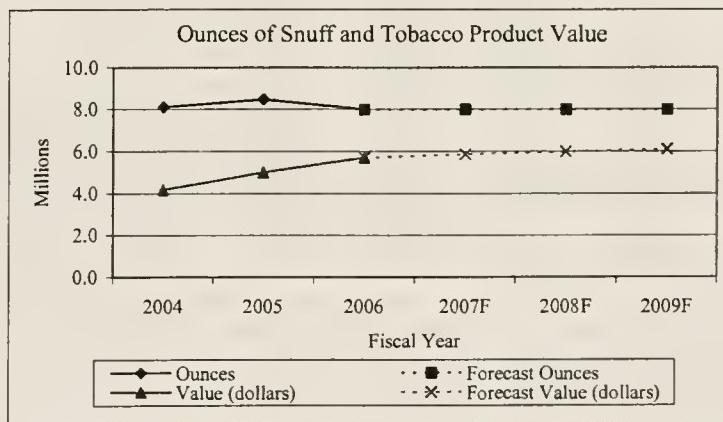
##### Data

Data are obtained from the state accounting system (SABHRS), the Department of Revenue (DOR), and Global Insight is used to forecast tobacco tax revenues. The tobacco tax is made up of two taxes on the consumption of tobacco products. The tax on snuff (most tobacco) is assessed on the number of ounces sold, and the tax on all other tobacco products (not including cigarettes) is assessed on the wholesale value of the product. The DOR provides information, by distributor and month, on the number of ounces of snuff and the value of the tobacco products sold in each month and the records of tribal distributions. Other data provided by DOR include the amount of discounts and credits given to tobacco distributors. Historic observations of tax collections are available through SABHRS and Global Insight supplies projections of the consumer price index (CPI).

DOR provides monthly information on the sales of snuff, in ounces, and the wholesale value of the sales of other tobacco products purchased in Montana. The only actions needed to prepare the data for analysis is to sum the monthly data across all distributor purchases and over the fiscal years. While administrative discounts and credits are provided to the distributors for collecting the tax, the tax base is not reduced for those amounts until later in the process. The actual SABHRS data serves as a comparative check against the collection data provided by the DOR.

##### Analysis

For the first full year in fiscal 2004, the tobacco tax assessment distinguished between moist snuff and other tobacco products. In the 58<sup>th</sup> Legislature, the taxation of moist snuff was changed. A new tax rate is now imposed on ounces of snuff sold instead of on value, as other tobacco products are taxed. Consequently, the method used to estimate tobacco tax collections was changed to reflect the changes in the law. The figure below shows the number of ounces of moist snuff sold to wholesalers since fiscal 2004 and the projected sales of ounces through the forecast period. Additionally, the figure shows the wholesaler sales and projected sales of other tobacco products over the same period.



The annual growth experienced by both snuff and other tobacco products between fiscal years 2004 and 2005 was around 1.8 percent. However, in fiscal 2006 the growth in the value of other tobacco products continued to grow slowly, while the sales of moist snuff dropped by almost 6 percent. Consequently, the estimate for the tobacco taxes is derived by applying growth rates to the value of other tobacco products and the ounces of moist snuff sold in Montana.

With a consistent growth pattern in the value of tobacco products consumed in Montana, growth in the value of other tobacco products is expected to equal the growth in the CPI. This assumption indicates that little, if any, growth is expected in the sales of products themselves, but increases in the price of products will drive the increases in other tobacco tax revenues. The value of the sales of tobacco products is expected to be \$5.9 million in fiscal 2007, \$6.0 million in fiscal 2008, and \$6.09 million in fiscal 2009. Because of the uncertainty surrounding the future sales of ounces of snuff sold in Montana, no growth is applied to ounces of snuff in estimating this portion of the tax. The number of ounces of snuff sold in Montana is expected to be 8.0 million for fiscal years 2007 through 2009. When the current tax rates are applied to the proxy of snuff ounces and sales of other tobacco products, the combined gross tax collections are \$9.4 million in fiscal 2007, \$9.4 million in fiscal 2008, and \$9.5 million in fiscal 2009.

# Legislative Fiscal Division

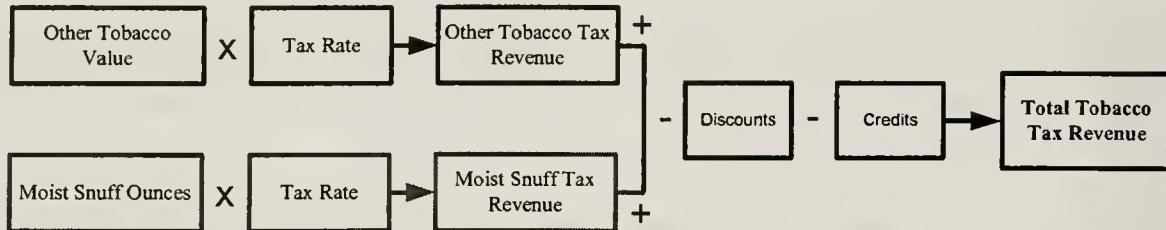
## Revenue Estimate Profile

### Tobacco Tax

#### Adjustment and Distribution

The estimates for gross collections of the tobacco taxes are adjusted for discounts and credits provided to the distributors. Finally, calculations are made for the distribution of the tobacco tax. Tobacco taxes are distributed to the general fund after being reduced by tribal reimbursements. At this time, five of the seven tribal governments receive tobacco tax dollars: Blackfeet, Fort Belknap, Fort Peck, Chippewa Cree, and Crow. These tribal governments adhere to Montana tobacco tax laws. The state of Montana collects the tribes' portion of the tax and quarterly distributes the collections based on a formula (per capita tobacco products consumption times tribal membership times the Montana tax rate).

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	Fiscal	Total Tax Millions	GF Tax Millions	Tribal Millions	Other Value Millions	Tax Rate Percent	Snuff Ounces Millions	Tax Rate Per Ounce
Actual	2000	2.042241	2.016799	0.025442	16.337928	12.5000%		
Actual	2001	2.097590	2.047995	0.049595	16.780720	12.5000%		
Actual	2002	2.228525	2.182827	0.045698	17.828200	12.5000%		
Actual	2003	2.360471	2.304532	0.055939	18.883768	12.5000%		
Actual	2004	3.625894	3.561574	0.064320	4.160119	25.0000%	8.079726	0.350000
Actual	2005	6.452428	4.024017	0.087097	4.999756	37.5000%	8.460370	0.600000
Actual	2006	9.118758	4.359968	0.398823	5.696871	50.0000%	7.981529	0.850000
Forecast	2007	9.136000	4.401000	0.334000	5.850453	50.0000%	7.981529	0.850000
Forecast	2008	9.194000	4.385000	0.424000	5.973892	50.0000%	7.981529	0.850000
Forecast	2009	9.247000	4.406000	0.436000	6.087282	50.0000%	7.981529	0.850000

	Fiscal	Disc. Other Millions	Disc. Snuff Millions	Credits Millions	GF Allocation Percent
Actual	2000				
Actual	2001				
Actual	2002				
Actual	2003				
Actual	2004	0.030860	0.065578	0.091947	0.982261
Actual	2005	0.033518	0.086638	0.097616	0.623644
Actual	2006	0.042732	0.101759	0.424804	0.478132
Forecast	2007	0.043884	0.101758	0.428190	0.500000
Forecast	2008	0.044810	0.101758	0.430912	0.500000
Forecast	2009	0.045661	0.101758	0.433412	0.500000

$$\text{Total Tax} = \text{Snuff Ounces} * \text{Tax Rate Per Ounce} + \text{Other Value} * \text{Tax Rate Percent} -$$

$$\text{Disc. Other} - \text{Disc. Snuff} - \text{Credit}$$

$$\text{GF Tax} = (\text{Total Tax} - \text{Tribal}) * \text{GF Allocation}$$

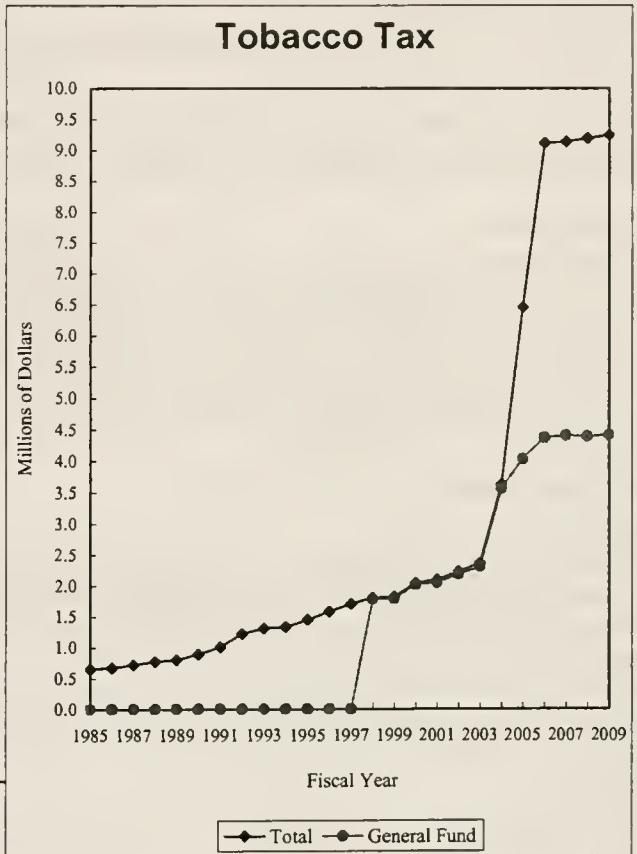
# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.650793	0.000000	Not App.
A 1986	0.669932	0.000000	Not App.
A 1987	0.720332	0.000000	Not App.
A 1988	0.773440	0.000000	Not App.
A 1989	0.802615	0.000000	Not App.
A 1990	0.893111	0.000000	Not App.
A 1991	1.006909	0.000000	Not App.
A 1992	1.224587	0.000000	Not App.
A 1993	1.308951	0.000000	Not App.
A 1994	1.328907	0.000000	Not App.
A 1995	1.446101	0.000000	Not App.
A 1996	1.579547	0.000000	Not App.
A 1997	1.702313	0.000000	Not App.
A 1998	1.801084	1.778739	Not App.
A 1999	1.815973	1.791077	0.69%
A 2000	2.042241	2.016799	12.60%
A 2001	2.097590	2.047995	1.55%
A 2002	2.228525	2.182827	6.58%
A 2003	2.360471	2.304532	5.58%
A 2004	3.625894	3.561574	54.55%
A 2005	6.452428	4.024017	12.98%
A 2006	9.118758	4.359968	8.35%
F 2007	9.136000	4.401000	0.94%
F 2008	9.194000	4.385000	-0.36%
F 2009	9.247000	4.406000	0.48%



**Data Source(s):** SABHRS, Department of Revenue

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Video Gambling Tax

**Revenue Description:** Video gambling income is derived from two sources: license fees and video gambling taxes. There are three types of license fees that generate revenue. Numerous fees are paid by operators for both video gambling machines and for non-video games such as poker. In addition, persons pay an annual fee for the right to assemble, produce, or manufacture video gambling machines or associated equipment. The video gambling tax is paid by licensed video gambling machine operators. License holders are charged a tax of 15.0 percent of the gross income (defined as net of payouts) from each licensed video gambling machine. The Department of Justice (DOJ) issues video gambling licenses and permits and collects the fees and taxes. All video gambling tax revenue is deposited into the general fund.

#### Statutory Reference:

Tax Rate (MCA) – route operator license (23-5-129), gambling establishment operator license (23-5-177), card table fee (23-5-306(2)), bingo/keno permit (23-5-407), video tax (23-5-610(1)), machine permit fee (23-5-612(2))

Tax Distribution (MCA) – card table fee (23-5-306(3&4)), video (23-5-610(6)), machine permit fee (23-5-612(3))

Date Due – card table fees due annually and distributed quarterly to local governments (23-5-306(1&4)), video tax due 15 and 25 days after the end of the quarter (23-5-610(5)(a&b)), machine permit fees due annually prorated on a quarterly basis (23-5-612(2a)), bingo and keno taxes due July 31.

#### Applicable Tax Rate(s):

##### License Fees

- Video Gambling Machine Permit - \$220 annually (prorated basis), \$25 machine transfer processing fee
- Video Gambling Manufacturer License - \$1,000 annually. An additional application fee is charged manufacturers to cover processing costs of the initial application. The manufacturer license may be waived by the DOJ if the manufacturer is also a licensed distributor or route operator.
- Video Gambling Machine Examination Fee – An amount equal to actual DOJ costs of examining the electronic equipment
- Distributor License - \$1,000 annually. The distributor license may be waived by the DOJ if the distributor is also a licensed operator or manufacturer. An additional application fee is charged distributors to cover processing costs of the initial application.
- Route Operator License - \$1,000 annually. The operator license may be waived by the DOJ if the operator is also a licensed distributor or manufacturer. An additional application fee is charged operators to cover processing costs of the initial application.
- Bingo/Keno Manufacture License - \$1,000 annually. An additional application fee is charged manufacturers to cover processing costs of the initial application.
- Gambling Establishment Operator License – An amount equal to the actual DOJ costs of determining licensure qualifications
- Antique Slot Machine Seller Permit - \$50 annually
- Live Card Game Table - \$250 annually for the first table and \$500 for each additional table
- Card Game Dealer License - \$75 for the first year, \$25 for each subsequent year
- Pinochle Tournament Permit - \$25
- Card Room Contractor License - \$150 annually
- Bingo/Keno Permit - \$250 annually
- Bingo/Keno Examination Fee – An amount equal to actual DOJ costs of examining the electronic equipment
- Sports Tab Game Seller License - \$100 annually. An additional application fee is charged to cover processing costs of the initial application.
- Casino Night Permit - \$25

##### Gambling Taxes

- Video – 15.0% of gross income (defined as net of payouts) per video gambling machine
- Bingo/Keno – 1.0% of gross proceeds
- Sport Tabs – \$1.00 for each 100 sport tabs sold

# Legislative Fiscal Division

## Revenue Estimate Profile

### Video Gambling Tax

#### Distribution:

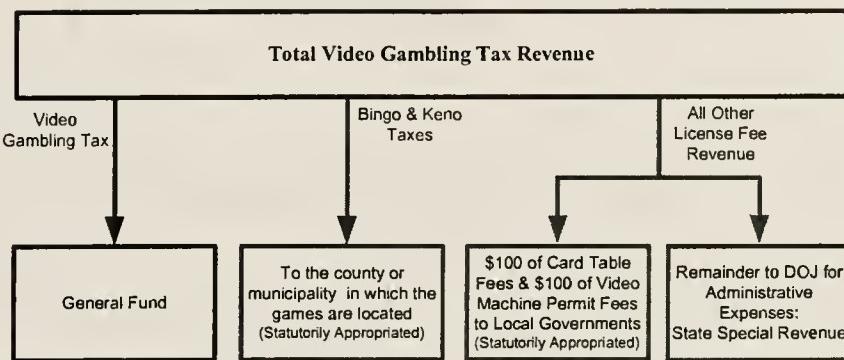
##### License Fees

1. \$100 of the live card game table fee and \$100 of the video gambling machine permit fee (prorated basis) are statutorily appropriated for distribution to local governments.
2. All other license fee revenue is retained by DOJ to cover administrative costs.

##### Gambling Taxes

1. Video – All of video gambling tax receipts are deposited into the general fund.
2. Bingo/Keno – All collections are statutorily appropriated for distribution to the municipality or county in which the game is located.
3. Sport Tabs – All collections are retained by DOJ for administration purposes.

#### Distribution Chart:



**Collection Frequency:** Video tax – quarterly, machine permit fees – quarterly, other fees – annually

#### % of Total General Fund Revenue:

FY 2004 - 3.69%  
FY 2005 - 3.49%  
FY 2006 - 3.35%

#### Revenue Estimate Methodology:

Video gambling revenue is comprised of many components. Because these components have separate distributions, the estimating methodology incorporates separate estimates for the components based on the type of revenue, either tax revenue or permit revenue.

#### Data

Monthly reports are provided by the Department of Justice. These reports show historical and current numbers of gambling machine permits issued by machine type (poker, keno, bingo, and multi-game), and the number of operator licenses, live card game table permits, card dealer licenses, and bingo and keno permits issued. Historic and current video gambling machine gross income (defined as total income net of payouts) and sports tab tax collections are shown by quarter and historic and current bingo and keno tax collections are shown yearly. Historic and current revenue collections are obtained from SABHRS. Also provided by the Department of Justice are quarterly statewide net income and average daily income by machine type (poker, keno, and multi-game). Montana population statistics are used to derive per capita video gambling machine gross income.

#### Analysis

The revenue estimate is determined in a three-step process:

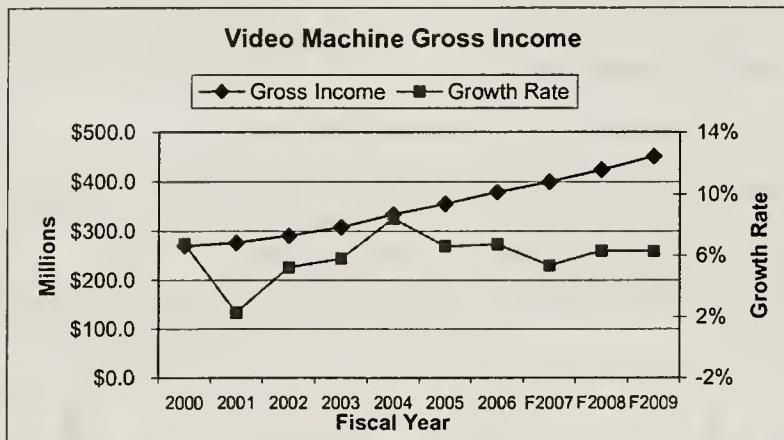
1. Revenue from the tax on video gambling machine gross income (defined as net of payouts) is the largest component of this revenue source and all revenue from this tax is distributed to the general fund. To determine the total gross income, gross

# Legislative Fiscal Division

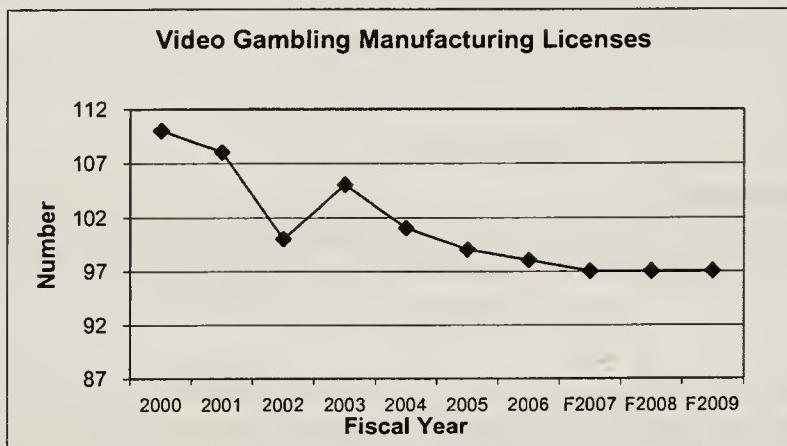
## Revenue Estimate Profile

### Video Gambling Tax

income for poker, keno, and multiple-game machines are summed for the last known fiscal year. This sum and the estimate for each succeeding fiscal year are multiplied by a growth factor. The growth factor represents the rate of increase of per capita gross revenue between fiscal 1995 and fiscal 2006. Once total gross income is estimated, the revenue estimate for this component is determined by multiplying total gross income by the tax rate. The total gross income and growth rates are shown in the chart below.



2. Permit and license fees are the second component to this revenue source, the revenue from which is deposited to the state special revenue fund and distributed to the Department of Justice to pay administrative costs and to local governments. There are three separate estimates for permit and license fees:
  - a. Video gambling manufacturing license – The number of licenses from the last known fiscal year is multiplied by the \$1,000 license fee and the product used as the estimate for all subsequent fiscal years.

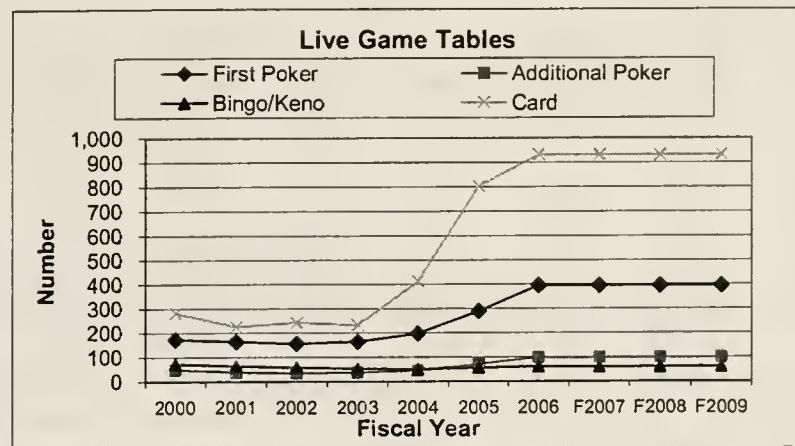


- b. Live game permit/license fees – The numbers of “first” poker tables, “additional” poker tables, and card game tables from the last known fiscal year are multiplied by the \$250 permit fee and the product used for all subsequent fiscal years for each type. For bingo/keno games, the number of games in the last known fiscal years is multiplied by the \$250 permit fee and the product used for all subsequent fiscal years for each type. For card game dealers, the number of dealers from the last known fiscal year is multiplied by the \$75 license fee and the product used for all subsequent fiscal years.

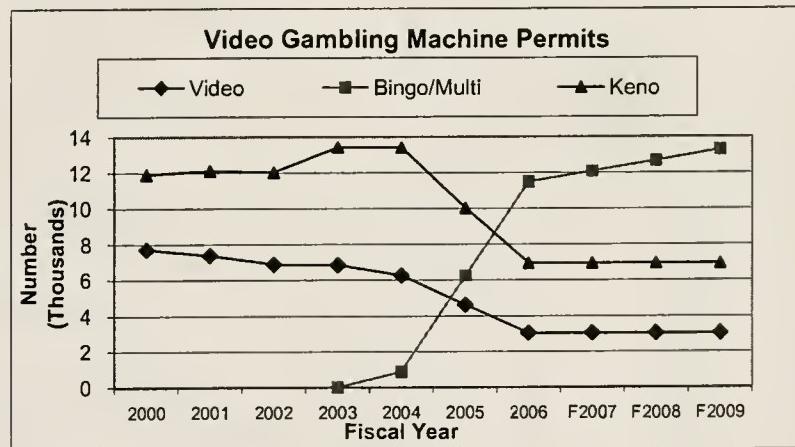
# Legislative Fiscal Division

## Revenue Estimate Profile

### Video Gambling Tax



- c. Video gambling machine permit fees – The numbers of video, bingo/multi game, and keno machine permits for the last known fiscal year are summed. The sum is multiplied by the ratio of the amount of revenue deposited to DOJ gambling license account to the total amount of permit fee revenue for the last known fiscal year (this ratio is less than 1 and so reduces the total machine permit fees). This is done to adjust for discrepancies in the last known fiscal year between actual collections and totals derived by multiplying number of permits by the applicable permit/license fee. Once the total adjusted number of permits has been estimated, it is multiplied by the \$220 fee.

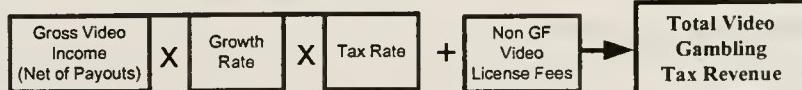


3. Bingo and keno taxes – The total amount of revenue received in the last known fiscal year is carried forward for all subsequent fiscal years.

#### Adjustments and Distribution

Since the general fund and the state special revenue component are estimated under separate methodologies, the distribution of the revenue has already been done.

#### **Forecast Methodology:**



# Legislative Fiscal Division

## Revenue Estimate Profile

### Video Gambling Tax

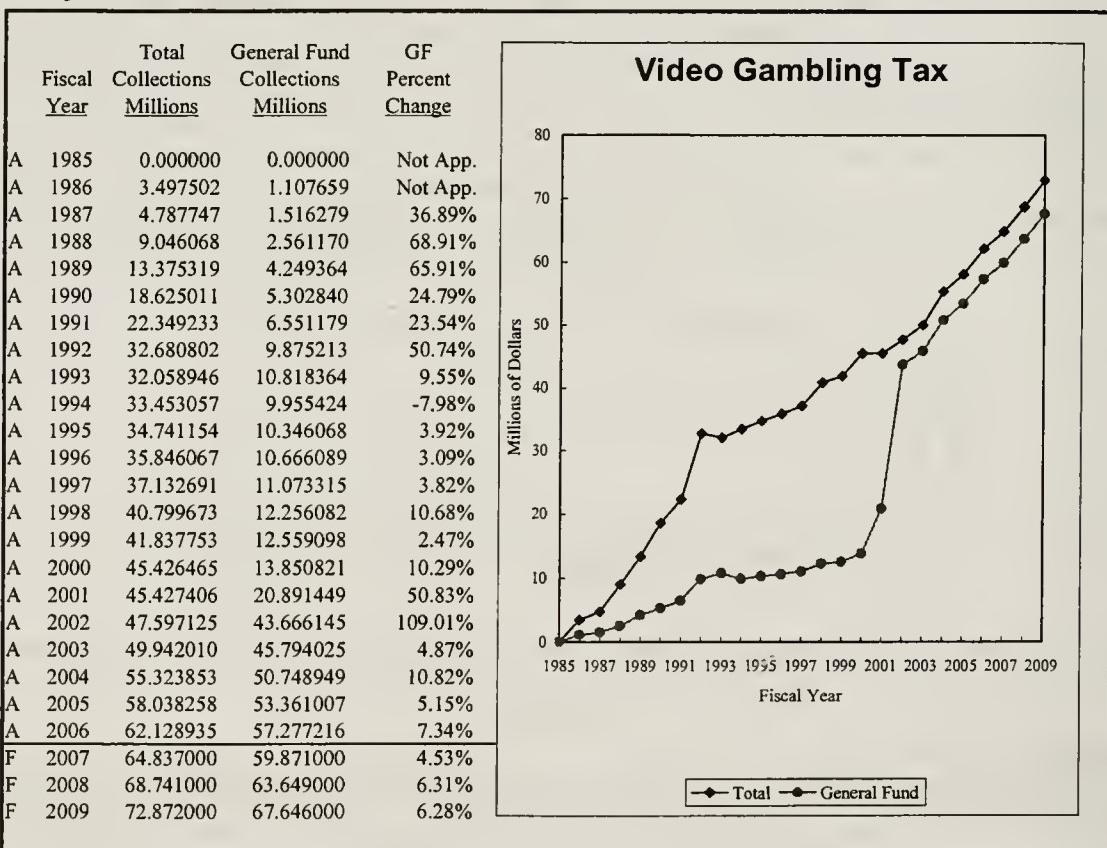
#### Revenue Estimate Assumptions:

Fiscal Year	Total Tax Millions	GF Tax Millions	Net Income Millions	Tax Rate	Net Income		
					Tax Millions	Non GF Fee Millions	Surtax Millions
Actual 2000	45.426465	13.850821	269.776957	0.150000	41.431382	3.995083	
Actual 2001	45.427406	20.891449	275.867992	0.150000	41.502013	3.925393	
Actual 2002	47.597125	43.666145	290.298949	0.150000	43.668454	3.928671	
Actual 2003	49.942010	45.794025	307.161266	0.150000	45.816379	4.125631	
Actual 2004	55.323853	50.748949	332.963377	0.150000	50.768922	4.554931	0.273275
Actual 2005	58.038258	53.361007	354.951300	0.150000	53.400781	4.637477	0.274340
Actual 2006	62.128935	57.277216	378.827999	0.150000	57.297216	4.831719	0.000000
Forecast 2007	64.837000	59.871000	399.141519	0.150000	59.871000	4.966000	0.000000
Forecast 2008	68.741000	63.649000	424.324165	0.150000	63.649000	5.092000	0.000000
Forecast 2009	72.872000	67.646000	450.974897	0.150000	67.646000	5.226000	0.000000

Total Tax = Net Income \* Tax Rate + Non GF Fee + Surtax

GF Tax = Net Income \* Tax Rate

#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Justice

**Contacts:** Department of Justice

# Legislative Fiscal Division

## Revenue Estimate Profile

### Wine Tax

**Revenue Description:** A wine tax is levied on table wines imported into Montana by wine distributors or by the Department of Revenue (DOR), who is authorized to sell wines to retail liquor establishments throughout the state. A tax is also imposed on hard cider imported by a table wine distributor or DOR. A portion of wine tax revenue is returned to Indian tribes per an agreement between DOR and the tribes.

#### Statutory Reference:

Tax Rate (MCA) – 16-1-411(1), 16-2-301(2)

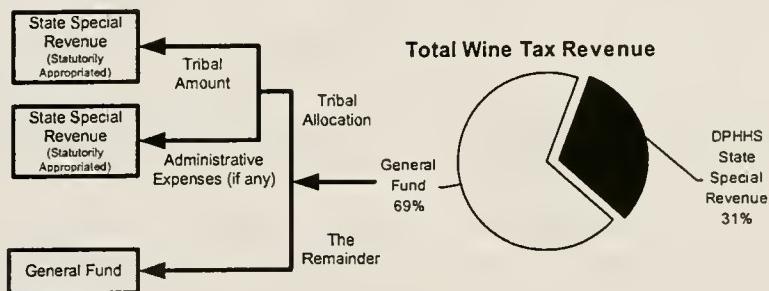
Tax Distribution (MCA) – 16-1-411(3)

Date Due – 15<sup>th</sup> day of the month following the sale from the distributor's warehouse (16-1-411(2))

**Applicable Tax Rate(s):** A tax of \$0.27 is imposed per liter of wine and a tax of \$0.037 per liter is imposed on hard cider. An additional tax of \$0.01 per liter is imposed on table wine sold by a table wine distributor to an agent.

**Distribution:** The \$0.01 per liter tax is deposited into the general fund. Other wine tax revenue is distributed 69.0% to the general fund and 31.0% to the DPHHS alcohol account. The general fund distribution is reduced by the amount of the tribal agreements.

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 0.10%

FY 2005 – 0.10%

FY 2006 – 0.10%

#### Revenue Estimate Methodology:

##### Data

The state accounting system (SABHRS) and the Department of Revenue (DOR) provide data for the wine tax estimates. The SABHRS data includes total fiscal year tax collection data. The DOR data provides the information related to historic tribal distributions.

Wine tax collections are made up of the collections of two taxes, the wine tax and the hard cider tax. Although each tax is individually established in statute, no distinction between the taxes is made when preparing the estimates. In the past several years, the cider tax has contributed no more than 0.09 percent of the total wine tax collections. In the future, if cider tax collections become more significant the wine tax methodology will be adapted to forecast hard cider tax.

# Legislative Fiscal Division

## Revenue Estimate Profile

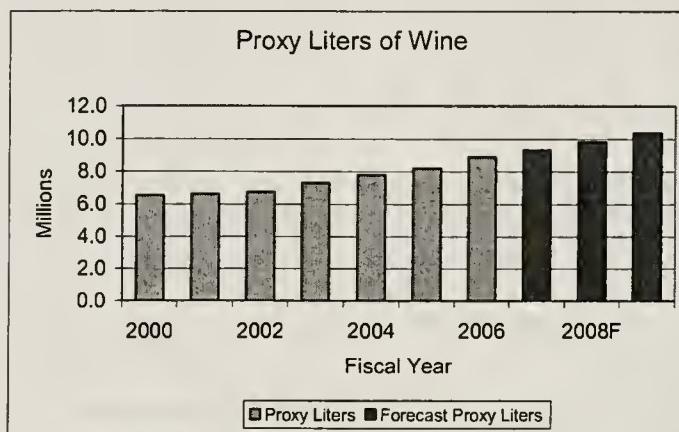
### Wine Tax

Only one data transformation is required to forecast the future collections of the wine tax. Because wine projections are based on the number of liters of wine consumed in Montana, the data obtained through SABHRS must be used. This task is accomplished by dividing the total tax receipts by the wine tax rate, producing a proxy number of liters of wine.

The total tax receipts include those taxes that will be distributed to tribal governments.

#### Analysis

Growth in wine tax collections, measured in liters of wine, has followed a consistent upward trend through time. The trend is apparent in the figure below. Consequently, liters of wine are forecast using a linear regression model.



The model provides a good fit as shown by a  $R^2$  rating of 0.98. This measure means that 98 percent of the variability in the change in liters of wine consumed in Montana can be explained by the passage of time, holding all other impacts constant.\*

The model predicts that each year the consumption of wine in Montana will increase by approximately 5 percent, holding all other impacts constant. The growth rate developed in the model is then applied to the most recent actual wine consumption data available or base year fiscal 2006. Total wine consumption is expected to be 9.3 million liters in fiscal 2007, 9.8 million liters in fiscal 2008, and 10.3 million liters in fiscal 2009. Finally, the tax rate is applied to the estimate of proxy liters to determine the total expected wine tax collections, which results in estimates of \$2.5 million, \$2.7 million, and \$2.8 million for fiscal years 2007 through 2009, respectively.

#### Adjustment and Distribution

The last step in producing the estimate of the wine tax collections is to calculate the tax distributions. The wine taxes are distributed between two funds. The general fund receives 69 percent and the Department of Health and Human Services alcohol state special revenue account receives 31 percent. The general fund distribution is reduced by tribal reimbursements. At this time, three of the seven tribal governments receive wine tax dollars, Blackfeet, Fort Belknap, and Fort Peck. These tribal governments adhere to Montana wine tax laws. The state of Montana collects the tribes' portion of the tax, and quarterly distributes the collections based on a formula (per capita wine consumption times tribal membership times the Montana tax rate).

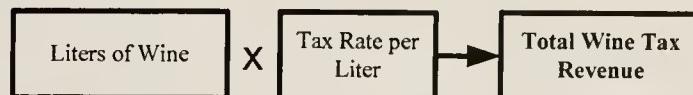
\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Wine Tax

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

<u>Fiscal</u>	<u>Total Tax Millions</u>	<u>GF Tax Millions</u>	<u>Liters Millions</u>	<u>Tax Rate \$ Per Liter</u>	<u>Gf Allocation Percent</u>	<u>Tribal Millions</u>
Actual 2000	1.767653	1.016538	6.546863	0.270000	0.590200	0.026730
Actual 2001	1.786403	1.032812	6.616307	0.270000	0.590257	0.021624
Actual 2002	1.815798	1.231862	6.725178	0.270000	0.690186	0.021376
Actual 2003	1.976257	1.339799	7.319470	0.270000	0.690196	0.024205
Actual 2004	2.104357	1.423463	7.793915	0.270000	0.690253	0.029075
Actual 2005	2.217968	1.502601	8.214696	0.270000	0.690319	0.028505
Actual 2006	2.397695	1.623980	8.880352	0.270000	0.690329	0.031219
Forecast 2007	2.519000	1.705000	9.327965	0.270000	0.690000	0.033000
Forecast 2008	2.657000	1.798000	9.838308	0.270000	0.690000	0.035000
Forecast 2009	2.795000	1.892000	10.348650	0.270000	0.690000	0.037000

Total Tax = Liters \* Tax Rate

GF Tax = Liters \* Tax Rate \* GF Allocation - Tribal

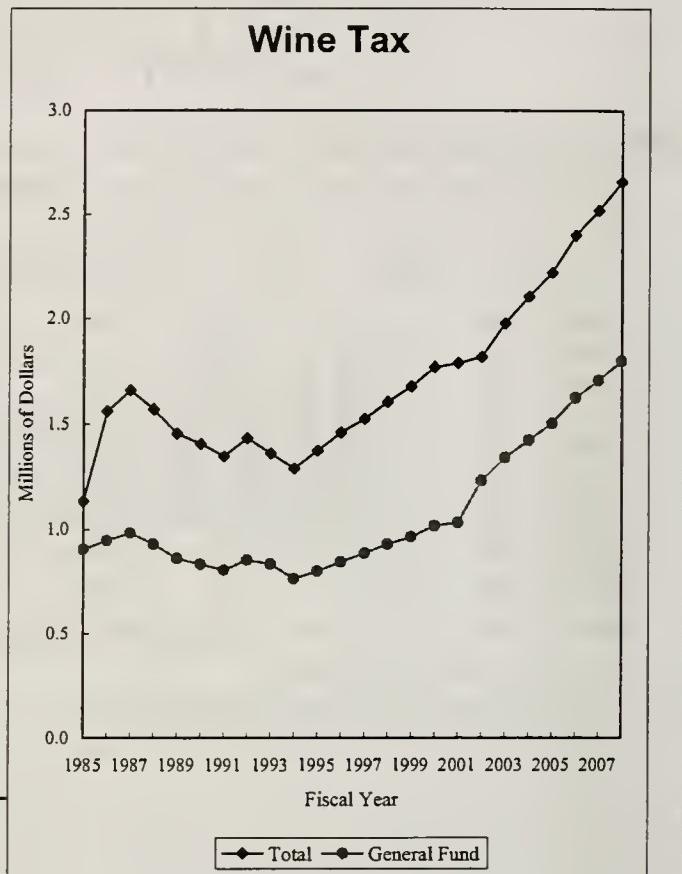
# Legislative Fiscal Division

## Revenue Estimate Profile

### Wine Tax

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	1.132060	0.905648	Not App.
A 1986	1.558356	0.946287	4.49%
A 1987	1.657783	0.982402	3.82%
A 1988	1.569139	0.929861	-5.35%
A 1989	1.453980	0.861618	-7.34%
A 1990	1.404764	0.832453	-3.38%
A 1991	1.346598	0.805117	-3.28%
A 1992	1.433011	0.853172	5.97%
A 1993	1.360770	0.834702	-2.16%
A 1994	1.289013	0.763752	-8.50%
A 1995	1.374297	0.800700	4.84%
A 1996	1.459901	0.845538	5.60%
A 1997	1.525376	0.887340	4.94%
A 1998	1.604299	0.930426	4.86%
A 1999	1.676561	0.964974	3.71%
A 2000	1.767653	1.016538	5.34%
A 2001	1.786403	1.032812	1.60%
A 2002	1.815798	1.231862	19.27%
A 2003	1.976257	1.339799	8.76%
A 2004	2.104357	1.423463	6.24%
A 2005	2.217968	1.502601	5.56%
A 2006	2.397695	1.623980	8.08%
F 2007	2.519000	1.705000	4.99%
F 2008	2.657000	1.798000	5.45%
F 2009	2.795000	1.892000	5.23%



**Data Source(s):** SABHRS, Department of Revenue

**Contacts:** Department of Revenue

# Property Taxes

Property Tax  
55 Mill Property Tax  
40 Mill Property Tax  
6 Mill Property Tax  
1.5 Mill Property Tax



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)





# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax

**Revenue Description:** Montana law requires counties to levy a county equalization levy of 55 mills, a state equalization levy of 40 mills and 6 mills for the university system against all taxable value in each county. A mill levy of 1.5 mills is also applied against all property in the five counties with a vo-tech college. Taxable value is defined as the market value of statutorily defined property times a statutory tax rate. Property valued at market value includes personal property, utility property, railroad and airline property, livestock, and mineral net and gross proceeds. The assessed value of residential and commercial real estate is the market value phased in over the reappraisal cycle. Agricultural land and timberland are valued on a productivity basis and their values are also phased in over the reappraisal cycle. Beginning January 1, 2003, livestock is no longer taxed.

Beginning January 1, 2003, residential and commercial property as well as agricultural land and timberland reflect the impact of a new reappraisal on market values. The current reappraisal cycle is 6 years, during which increases in property values will be phased in by 1/6th per year. Property that declines in value will be assessed immediately at its new reappraised value. The impact of the 2003 reappraisal on assessed values increased the market value of the average residence by 20.2 percent. The equivalent increases for commercial property were 18.5 percent and for agricultural land by 15.3 percent.

The 2003 legislature passed a reappraisal mitigation bill - SB 461. Beginning in tax year 2003, reappraisal values were phased in over the next six years. The new tax rates and the new homestead and comstead exemptions are shown in the accompanying table:

In addition to the tax on property, this revenue component includes collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. These non-levy sources include the state share of coal gross proceeds taxes, federal forest revenues, and other smaller revenue sources.

This source also includes the state's share of protested taxes paid by centrally assessed companies. Should the state fail in its defense of the taxation of these companies, the protested taxes must be returned to the taxpayer.

**SB 461 Tax Rates and Exemption Percentages for Class 4 Residential and Commercial Property**

Fiscal Year	Tax Rate	Class 4 Residential Exemption	Class 3 Multi Family Housing Exemption	Class 4 Commercial Exemption
2003 (prior law)	3.46%	31.0%	31.0%	13.0%
2004	3.40%	31.0%	31.0%	13.0%
2005	3.30%	31.4%	31.4%	13.3%
2006	3.22%	32.0%	32.0%	13.8%
2007	3.14%	32.6%	32.6%	14.2%
2008	3.07%	33.2%	33.2%	14.6%
2009	3.01%	34.0%	34.0%	15.0%

Homeowners whose homesteads have increased above certain thresholds and whose income falls below certain levels will face lower tax rates.

#### Revenue Estimate Methodology:

##### Data

The property tax received by the state is composed of two kinds of revenue. First there is property tax proper, i.e. each property has a taxable value which is multiplied by a mill levy (a tax rate per thousand dollars of taxable value) set by the government, in this case the state. The second kind of revenue is "nonlevy" revenue that is distributed to the mill levy and is included as property tax revenue.

The state imposes five types of mill levies. These are the 33-mill elementary county equalization levy, the 22-mill high school county equalization levy, the 40-mill state equalization levy, the 6-mill university levy, and the 1.5-mill vocational technical college (vo-tech) levy. The first three (most often called the 95 mills for education) are applied to all property in the state and are deposited in the general fund. The 6-mill levy is applied to all property in the state and is deposited in a special account for university operations. The 1.5-mill levy is applied to all property in the counties in which the five vo-tech colleges are located, i.e. Butte-Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark.

The data required to produce forecasts of property tax received by the state are historical data on assessed and taxable value by class of property, the amount of property in tax increment financing (TIF) districts, the amount of local abatements conferred by local governments, and future growth rates for these variables. Also required is historical and future data on the nonlevy

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax

components of property tax. These are gross proceeds revenue, federal forest revenue, and miscellaneous revenue allocated to the various state mill levies. The latest taxable value data is for tax year 2006 which began January 1, 2006, and the latest data for the nonlevy revenue is fiscal 2006.

The historical data on assessed and taxable value by property tax class, TIF taxable value, and abated taxable value are provided to the LFD and OBPP by the Department of Revenue on an annual basis, usually in October. TIF taxable value is required because state law allows a TIF district to apply the state 95 mills and 1.5 vo-tech mills to the increment in property value that occurred since the TIF was created, but allows the TIF district to keep the revenue associated with these mill levies. The state does not receive its share of the mill levies applied to TIF property. Thus the taxable value of the state must be adjusted downward by the value of TIF property for the 95 mills and the 1.5-mill levy. The 6-mill levy revenue derived from TIF property does flow to the special account for university operations, and thus the tax base for the 6-mill levy is not adjusted for the incremental taxable value in a TIF.

Montana law allows local governments (usually counties) to temporarily reduce the tax rate applied to the assessed value of property. This is called abated property. For instance, in tax year 2006, an electrical generation plant outside Hardin and another in Silver Bow county were granted a 10 year exemption on all personal and real estate property. The abatement applies to all local mills for those jurisdictions in which the properties are located. However, the exemption from property taxes does not apply to state mills. The taxable value data received by the department does not include the exempted property and thus for state property tax revenue purposes this property must be added back to the statewide taxable value.

#### Analysis

The latest year for which taxable value by class is available is the base from which future taxable values are derived. Growth rates are applied to the taxable value in each class of property. The table below shows growth rates for each class of property, for TIF and abated values and the resulting growth rates in net taxable value.

Class of Property	Statewide Taxable Values by Class			Growth Rates		
	Taxable Value (Millions)		Fiscal Year	2007	2008	2009
Net Proceeds	\$ 3.25	\$ 3.25	3.25	20.7%	0.0%	0.0%
Gross Proceeds	21.11	25.18	28.54	61.8%	19.3%	13.4%
Agricultural Land	141.00	141.00	141.00	0.0%	0.0%	0.0%
Residential and Commercial Real Estate	1,183.82	1,232.95	1,284.12	4.8%	4.1%	4.2%
Rural Coops and Pollution Control	35.08	35.08	35.08	1.3%	0.0%	0.0%
Non-Centrally Assessed Public Utilities	1.07	1.12	1.17	12.1%	4.7%	4.7%
Business Equipment	135.61	141.44	147.53	10.2%	4.3%	4.3%
Centrally Assessed Public Utilities	248.32	256.02	263.95	4.0%	3.1%	3.1%
Timberland	6.82	6.83	6.84	0.3%	0.2%	0.2%
Railroad and Airline Property	41.58	39.46	37.46	-6.1%	-5.1%	-5.1%
Electrical Generating and Telecommunications	130.48	138.57	147.16	6.2%	6.2%	6.2%
Electrical Generation by Wind	2.56	2.81	3.09	NA	10.0%	10.0%
Total Taxable Value	1,950.68	2,023.71	2,099.20	5.0%	3.7%	3.7%
Tax Increment Financing Values *	(28.83)	(27.45)	(22.68)	13.2%	-4.8%	-17.4%
Abatement Values **	18.85	18.85	18.85	355.8%	0.0%	0.0%
Net Taxable Value	1,940.71	2,015.11	2,095.37	5.7%	3.8%	4.0%
Net Vo-tech Value	675.76	707.84	745.01	5.8%	4.7%	5.3%
Net 6 mill Taxable Value	1,969.54	2,042.57	2,118.05	4.6%	3.7%	3.7%

Fiscal 2007 taxable values are tax year 2006 taxable values. The property was valued on January 1, 2006, and the revenue from these values is deposited in state coffers in November and May of the following fiscal year. Thus fiscal 2007 taxable values are known.

\* TIF values decline because two Missoula TIF's are scheduled to be eliminated in fiscal 2008 and a Billings TIF is scheduled to be eliminated in fiscal 2009.

\*\* The large increase in abated property value in fiscal 2007 is due to exemption from local property taxes of two electrical generation plants in Hardin and Silver Bow County.

For the most part, growth rates are based on historical growth since fiscal 2001 and on expected changes in tax rates in fiscal 2008

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax

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and 2009.

The growth rate for class 4 – residential and commercial real estate – is an estimate of the amount of new property expected to be added. The taxable value of existing property is assumed to be constant as two forces operate to hold it steady. SB 461, passed by the 2003 legislature, allowed the new reappraised market value of property to be phased upward in equal increments over six years between fiscal 2004 and fiscal 2009. As this phase-up in value occurs, the tax rate applied to class 4 property and the homestead and comstead exemption percentages are phased down as shown in the following table. The tax rates for agricultural land are the same as for residential and commercial property.

Class of Property	Tax Rates and Exemptions By Property Tax Class			
	Tax Rates Fiscal Year	2007	2008	2009
Net Proceeds		100.00%	100.00%	100.00%
Gross Proceeds		3.00%	3.00%	3.00%
Agricultural Land		3.14%	3.07%	3.01%
Residential Real Estate		3.14%	3.07%	3.01%
Commercial Real Estate (excluding Multi Family Housing)		3.14%	3.07%	3.01%
Rural Coops and Pollution Control		3.00%	3.00%	3.00%
Non-Centrally Assessed Public Utilities		3.00%	3.00%	3.00%
Business Equipment		3.00%	3.00%	3.00%
Centrally Assessed Public Utilities		12.00%	12.00%	12.00%
Timberland		0.35%	0.35%	0.35%
Railroad and Airline Property		3.55%	3.37%	3.20%
Electrical Generating and Telecommunications		6.00%	6.00%	6.00%
Electrical Generation by Wind		3.00%	3.00%	3.00%
<hr/>				
Exemptions				
Homestead Exemption for Residential Property		32.6%	33.2%	34.0%
Comstead Exemption for Commercial Property		14.2%	14.6%	15.0%

The other property for which tax rates will change in fiscal years 2008 and 2009 is class 12, railroads and airlines. Under the federal 4R act, the tax rate on railroads and airlines is a weighted average of the tax rates of all commercial and industrial property in the state. This includes business equipment, centrally assessed property and commercial real estate. Since the tax rate for commercial real estate is declining while the tax rate for the other classes of property are held constant, the tax rate for class 12 will also decline in fiscal years 2008 and 2009.

The growth in net proceeds and gross proceeds taxable value is based on the projected growth in the mineral values. Net proceeds growth is based on the growth in taxable value of metals as derived from the metal mines tax base. Gross proceeds growth is based on growth rate for miscellaneous metals tax base.

The following table shows the projected property tax revenue from the property tax base and nonlevy revenue.

Property Tax Revenue in General Fund and University Account			
General Fund Property Tax Revenue	FY 2007	FY 2008	FY 2009
95 mill Revenue	\$ 184.37	\$ 191.44	\$ 199.06
1.5 Mill Revenue	1.01	1.06	1.12
Property Tax in the General Fund	<u>\$ 185.38</u>	<u>\$ 192.50</u>	<u>\$ 200.18</u>
Nonlevy Revenue associated with 95 mills	\$ 9.23	\$ 9.35	\$ 8.78
SB 417 Deductions	(2.83)	(1.41)	-
Protested Taxes - 95 mills and 1.5 mills	(2.53)	(2.53)	(2.53)
Net Property Taxes in General Fund	<u>\$ 189.28</u>	<u>\$ 197.93</u>	<u>\$ 206.45</u>
Percent Growth	6.6%	4.6%	4.3%
6 mills Property Tax Revenue (University Account)	\$ 11.82	\$ 12.26	\$ 12.71
Nonlevy Revenue associated with 6 mills	0.69	0.70	0.63
Protested Taxes - 6 mills	(0.17)	(0.17)	(0.17)
Net Property Taxes in University Account	<u>\$ 12.34</u>	<u>\$ 12.79</u>	<u>\$ 13.17</u>

# **Legislative Fiscal Division**

## **Revenue Estimate Profile**

### **Property Tax**

Once net taxable values are determined, the mill levies are applied. To this is added forecasts of nonlevy revenue. Nonlevy revenues come from coal gross proceeds, federal forest receipts and miscellaneous revenue (interest on investments, penalty and interest on delinquent taxes, etc). The tax on the gross proceeds for coal is 5 percent of gross value and is estimated in conjunction with the coal severance tax. Of this total, 41.3 percent is distributed to the elementary and high school county equalization levies.

Federal forest receipts are receipts from the federal government in lieu of revenues from the sale of forest products on federal land. By state law, two-thirds of this revenue is distributed to the county road fund in the counties with federal forestland and the remaining one-third is distributed to the county equalization mills and the county retirement and transportation mills. The share distributed to the 55 mills is the proportion that 55 mills is to all countywide mills in the prior year. This will vary every year since the retirement levies and transportation levies will change over time. It is expected that these levies will increase by 3 percent per year over the forecast period and thus the proportion of the 55 mills will decline. The proportion that the 55 mills is to all countywide mills is multiplied times 1/3 of the federal forest receipts. In fiscal 2006, statewide federal forest receipts were \$12.8 million. This revenue increases at one-half the rate consumer price index for rural areas. This is expected to be 1.6 percent in fiscal 2007 and around 1.1 percent in fiscal years 2008 and 2009.

Miscellaneous receipts distributed to the 95 mills are such things as investment earnings, tax title sales, and penalties and interest on delinquent taxes. In fiscal 2005, the latest year for which data are available, miscellaneous nonlevy revenue was \$1.5 million, which is expected to remain constant in the future.

Once property tax revenue adjusted for nonlevy revenue is determined, two more adjustments are made. The first reduces 40 mill revenue by the SB 417 deductions. SB 417, a bill passed by the 1995 legislature, reduced the tax rate on business equipment from 9 percent to 6 percent, and reimbursed local taxing jurisdiction by allowing deductions from 40 mill revenue. The deductions are made before the county forwards the 40 mill revenue to the state, and the county distributes the SB 417 deductions to the appropriate sub-jurisdictions. SB 417 also required that the deductions be reduced 10 percent per year until gone. The deductions will be reduced to zero in fiscal 2009. The second adjustment is for centrally assessed protested taxes. In fiscal 2006, companies such as Northeastern Energy, Pennsylvania Power and Light, Puget Sound and Energy, PacificCorp, Encana, Qwest, and OmniMex protested a portion of their property taxes. Under state law, half of the protested taxes from these companies is deposited in a special account and half in the general fund. It is expected that \$2.5 million will be deposited in the special account each of the next three years.

Property tax revenue in the general fund is expected to increase at a rate greater than in the recent past. Between fiscal 2002 and fiscal 2006, the average annual rate of growth was 1.2 percent. The rate of growth for fiscal 2007 is 6.6 percent, which is a known number, and growth in fiscal 2008 and 2009 is forecast to be 4.6 percent and 4.3 percent, respectively. The high growth in fiscal 2007 is due to the addition of wind electrical generating plants as well as high growth in business equipment, centrally assessed electrical generation and a higher than normal rate of growth for residential and commercial real estate. The growth in these classes is expected to moderate slightly in the later years.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 55 Mill

#### Statutory Reference:

Tax Rate (MCA) – 20-9-331(1), 20-9-333(1)

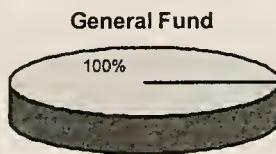
Tax Distribution (MCA) – 20-9-331(1), 20-9-333(1)

Date Due – one-half of taxes due November 30<sup>th</sup> and one-half due May 31<sup>st</sup> (15-16-102(1)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month (15-1-504(1))

**Applicable Tax Rate(s):** Each property class has its own tax rate, which is applied to the assessed value to produce a taxable value. For every \$1,000 in taxable value, 55 mills generates \$55 in state property taxes.

**Distribution:** All property tax receipts are deposited into the general fund, except revenue associated with the 6-mill university levy.

#### Distribution Chart:



**Collection Frequency:** Monthly with significant state deposits in December and June.

#### % of Total General Fund Revenue:

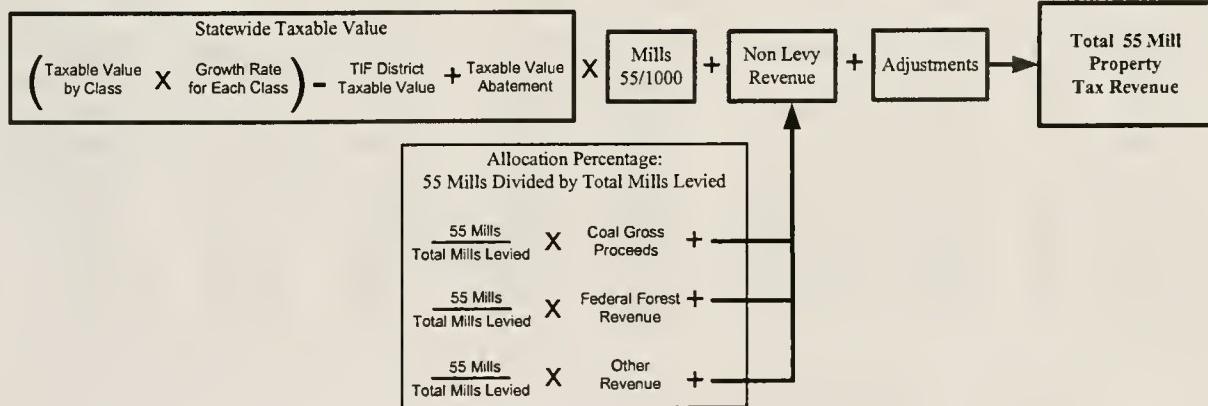
FY 2004 – 7.54 %

FY 2005 – 6.69%

FY 2006 – 6.29%

**Revenue Estimate Methodology:** The methodology used to derive revenue from this source is explained in the methodology section under “Property Tax”.

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 55 Mill

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Tax. Value <u>Millions</u>	Mills/1000 <u>Applied</u>	Non-Levy <u>Millions</u>	Adjustments <u>Millions</u>
Actual	2000	125.145645	125.145645	1863.986815	0.055000	23.445540	0.274000
Actual	2001	115.454627	115.454627	1656.909416	0.055000	16.482000	4.933824
Actual	2002	105.375801	105.375801	1671.589714	0.055000	13.809000	0.000000
Actual	2003	106.028709	106.028709	1691.720391	0.055000	11.424000	0.000000
Actual	2004	104.223809	104.223809	1703.300593	0.055000	12.701000	0.000000
Actual	2005	104.183789	102.415859	1756.251400	0.055000	0.000000	0.000000
Actual	2006	108.949260	107.494822	1836.487799	0.055000	0.000000	0.000000
Forecast	2007	115.966000	114.512000	1940.708962	0.055000	9.227000	0.000000
Forecast	2008	120.292000	118.838000	2017.121533	0.055000	9.350000	0.000000
Forecast	2009	124.224000	122.770000	2098.989892	0.055000	8.780000	0.000000

	<u>t</u> <u>Fiscal</u>	Class 1 <u>Millions</u>	Class 2 <u>Millions</u>	Class 3 <u>Millions</u>	Class 4 <u>Millions</u>	Class 5 <u>Millions</u>	Class 6 <u>Millions</u>	Class 7 <u>Millions</u>
Actual	2000	7.026572	8.282057	139.192024	894.188310	37.015035	22.570979	1.881621
Actual	2001	5.178965	8.460976	139.318879	920.536186	39.008611	15.695230	0.155867
Actual	2002	7.842501	11.014983	139.057406	954.102342	35.667858	12.459077	0.189041
Actual	2003	8.691402	10.669321	138.900095	1002.873942	35.382198	6.167237	0.216414
Actual	2004	7.808005	8.799575	140.240224	1034.656439	32.725014	0.000000	0.995149
Actual	2005	8.032414	10.428300	139.901823	1076.984542	34.024275	0.000000	0.974316
Actual	2006	2.694216	13.045195	140.988242	1129.794467	34.611220	0.000000	0.953438
Forecast	2007	3.252295	21.106138	141.002419	1183.820993	35.077724	0.000000	1.068358
Forecast	2008	3.252292	27.186289	141.002419	1232.949564	35.077724	0.000000	1.118571
Forecast	2009	3.252292	32.162032	141.002419	1284.116971	35.077724	0.000000	1.171144

	<u>t</u> <u>Fiscal</u>	Class 8 <u>Millions</u>	Class 9 <u>Millions</u>	Class 10 <u>Millions</u>	Class 12 <u>Millions</u>	Class 13 <u>Millions</u>	TIF's <u>Millions</u>	Abatement <u>Millions</u>
Actual	2000	215.748092	498.030237	8.520090	68.192588	0.000000	44.535577	7.874787
Actual	2001	112.782734	230.832978	8.708849	49.641444	147.142750	28.428840	7.874787
Actual	2002	116.605209	219.955767	8.198788	48.658380	144.488095	30.529563	3.879830
Actual	2003	118.348926	206.360123	7.170239	46.688479	137.184847	30.802832	3.870000
Actual	2004	118.296988	212.110930	6.789287	45.630257	125.622547	33.562140	3.188318
Actual	2005	117.240984	219.992824	6.791382	45.074061	120.485065	27.766903	4.088317
Actual	2006	123.054946	238.766675	6.793765	44.267220	122.845989	25.464420	4.136846
Forecast	2007	135.612793	248.320188	6.815519	41.576814	130.475712	28.830201	18.854527
Forecast	2008	141.444143	256.018114	6.829150	39.464623	138.565206	27.452340	18.854527
Forecast	2009	147.526241	263.954676	6.842808	37.459736	147.156249	22.679303	18.854527

Total Tax = Tax Value \* Mills/1000 + Non-Levy + Adjustments

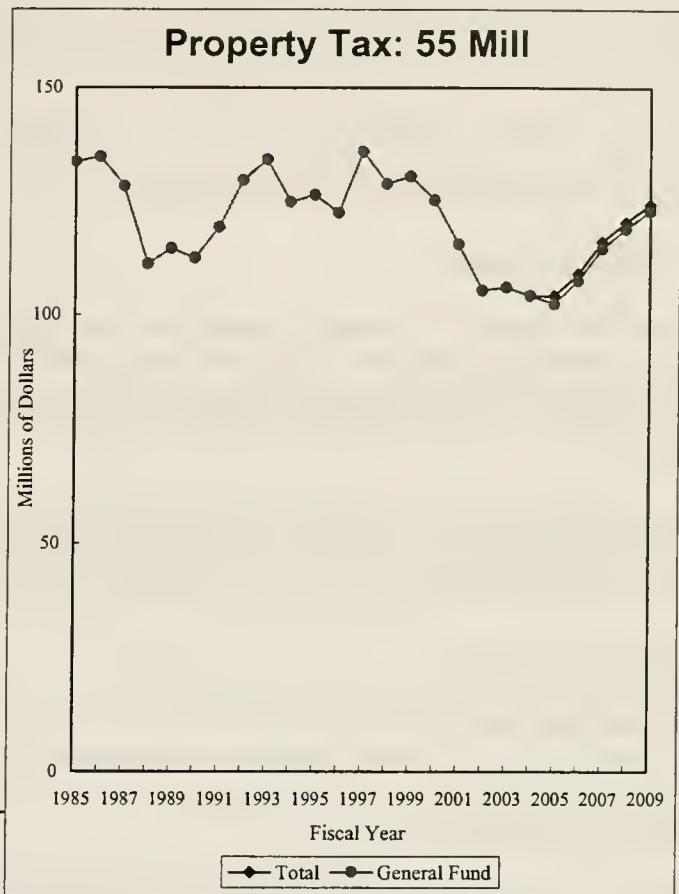
# Legislative Fiscal Division

## Revenue Estimate Profile

### **Property Tax: 55 Mill**

#### **Revenue Projection:**

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	133.608178	133.608178	Not App.
A 1986	134.707251	134.707251	0.82%
A 1987	128.225413	128.225413	-4.81%
A 1988	111.111138	111.111138	-13.35%
A 1989	114.444609	114.444609	3.00%
A 1990	112.374543	112.374543	-1.81%
A 1991	119.161125	119.161125	6.04%
A 1992	129.526346	129.526346	8.70%
A 1993	134.154928	134.154928	3.57%
A 1994	124.696589	124.696589	-7.05%
A 1995	126.265989	126.265989	1.26%
A 1996	122.329028	122.329028	-3.12%
A 1997	135.893657	135.893657	11.09%
A 1998	128.708743	128.708743	-5.29%
A 1999	130.388345	130.388345	1.30%
A 2000	125.145645	125.145645	-4.02%
A 2001	115.454627	115.454627	-7.74%
A 2002	105.375801	105.375801	-8.73%
A 2003	106.028709	106.028709	0.62%
A 2004	104.223809	104.223809	-1.70%
A 2005	104.183789	102.415859	-1.73%
A 2006	108.949260	107.494822	4.96%
F 2007	115.966000	114.512000	6.53%
F 2008	120.292000	118.838000	3.78%
F 2009	124.224000	122.770000	3.31%



**Data Source(s):** Department of Revenue (DOR), Office of Public Instruction (OPI), County Assessor Offices, Montana Association of Counties (MACO)

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 55 Mill

**Non Levy Revenue** includes federal forest receipts, coal gross proceeds revenue, and other revenue which is distributed to statewide and local mills in each county. Before July 1, 2001, vehicle fees in lieu of taxes, financial institution taxes, and reimbursements from the state were non levy revenue. Before January 1, 2003, oil and natural gas receipts were treated as non-levy revenue. The mills to which non levy revenue is distributed are unique for each county and each non levy revenue source. The state's portion of non-levy revenue is remitted to the state as a portion of the appropriate property tax. For instance, statewide 40 mill revenue includes a property tax portion and a non levy portion.

A description for each individual source follows below.

#### Federal Forest Receipts

**Revenue Description:** The federal government authorizes logging operations on forest lands located within the borders of Montana. Through federal fiscal year 2000, the sale of timber generated revenue that the federal government shared with the state in the following year. The state received 25 percent of the federal forest receipts and sent the money to the county treasurer of the county in which the receipts were generated. Within thirty days, the county treasurer distributes the money to various county and state accounts.

Beginning November 2000, HR 2389 (federal legislation) fixes the allocation to the state at the average of the highest three years of forest receipts in the state. Not more than 20 percent and not less than 15 percent may be used by county governments for special projects on federal lands. The remainder is distributed under state law as described below.

#### **Statutory References:**

Tax Rate - NA

Distribution (MCA) - 17-3-211, 17-3-212

Date Due - the state treasurer distributes the funds within 30 days after receiving full payment

#### **Applicable Tax Rate(s):** N/A

**Distribution:** The county treasurer apportions federal forest receipts in the following manner. Not more than 20% and not less than 15% is distributed to county government for special projects on federal land. Of the remainder:

- 66 2/3% goes to the general fund of the county
- 33 1/3% goes to the following countywide accounts, based on the mill ratios of each to total mills in the prior year:  
county equalization accounts (55 mills), county transportation account, county retirement accounts

**Collection Frequency:** Twice annually (usually October and December).

**% of Total General Fund Revenue:** Included in total property tax contribution.

**Data Source(s):** U.S. Forest Service survey, SABHRS

**Contacts:** U.S. Forest Service

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 55 Mill

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#### Coal Gross Proceeds Tax

**Revenue Description:** The state imposes a gross proceeds tax of 5.0 percent on the gross value of coal produced by all the coal mines in the state. The gross value of coal is computed as the tonnage of coal produced and sold times the contract sales price. This is the same gross value as used in the calculation of the state coal severance tax.

The tax is applied to one year's worth of production and the producer is billed in the following year. The producer pays the tax to the county treasurer in which the mine is located in two equal installments. One is in November of the notice year and the other is in May of the following year. Once received by the county treasurer, the tax revenue is distributed one month after receipt.

**Statutory References:**

Tax Rate (MCA) – 15-23-703(1)  
Tax Distribution (MCA) – 15-23-703(3)

**Applicable Tax Rate(s):** The amount of tax due is 5.0 percent of the value of production as measured by the contract sales price for production in the preceding calendar year.

**Distribution:** The county treasurer distributes the coal gross proceeds tax based on the relative proportions of mill levies for the state, counties, and school districts as these existed in tax year 1989. At that time the county equalization mill levy was 45 mills. However, coal gross proceeds from new mines (starting business after December 31, 1988) are distributed across mill levies in the previous fiscal year.

**Collection Frequency:** The coal gross proceeds tax is collected twice annually in November and May. The state receives the tax revenue in December and June.

**% of Total General Fund Revenue:** Included in total property tax contribution.

**Data Source(s):** Coal Company Surveys, Department of Revenue, County Treasurers

**Contacts:** Coal Company Representatives, Department of Revenue, County Treasurers

#### Other Revenue

**Revenue Description:**

The county equalization account receives other revenue in addition to the types listed elsewhere. These include penalties and interest, back taxes, investment earnings, recreational fees, tax title and property sales, various state grants and fees, district court fines, county rents and lease income, and various revenue from federal sources such as PILT, Taylor Grazing and Bankhead Jones payments.

**Applicable Tax Rate(s):** N/A

**Distribution:** Varies

**Collection Frequency:** Varies

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 55 Mill

**Applicable Assumptions and/or Relevant Indicators:** Because these sources are fairly stable in total, the last known year of collections is usually used to forecast future collections.

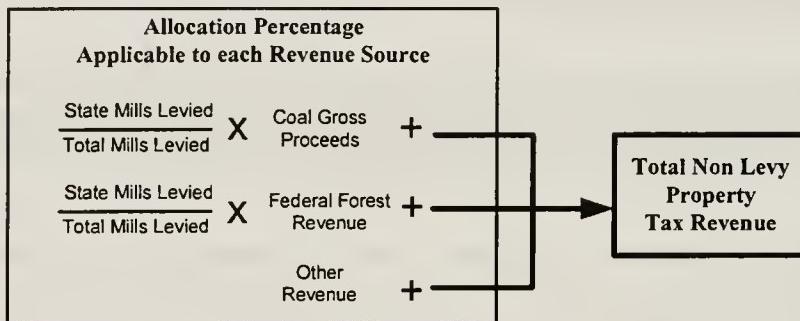
**Data Source(s):** County Collection Reports

**Contacts:** Office of Public Instruction

**Statutory References:** Various

**% of Total General Fund Revenue:** Included in total property tax contribution.

#### Forecast and Distribution Methodology



# Legislative Fiscal Division

Revenue Estimate Profile

**Property Tax: 40 Mill**

## Statutory Reference:

Tax Rate (MCA) – 20-9-360

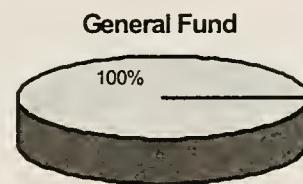
Tax Distribution (MCA) – 20-9-360

Date Due – one-half of taxes due November 30<sup>th</sup> and one-half due May 31<sup>st</sup> (15-16-102(1)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month (15-1-504(1))

**Applicable Tax Rate(s):** Each property class has its own tax rate, which is applied to the assessed value to produce a taxable value. For every \$1,000 in taxable value, 40 mills generates \$40 in state property taxes.

**Distribution:** All property tax receipts are deposited into the general fund, except revenue associated with the 6-mill university levy.

## Distribution Chart:



**Collection Frequency:** Monthly with significant state deposits in December and June.

## % of Total General Fund Revenue:

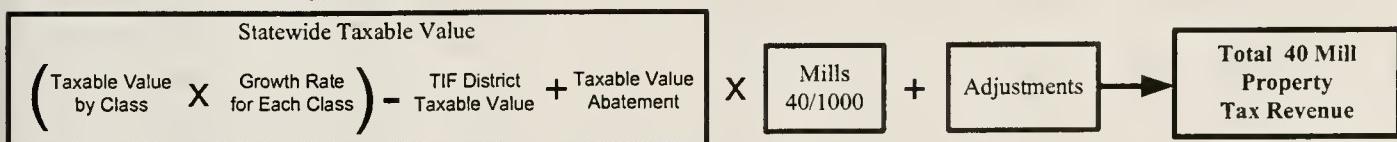
FY 2004 – 4.66 %

FY 2005 – 4.18%

FY 2006 – 4.05%

**Revenue Estimate Methodology:** The methodology used to derive revenue from this source is explained in the methodology section under “Property Tax”.

## Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 40 Mill

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Tax. Value <u>Millions</u>	Mills/1000 <u>Applied</u>	Non-Levy <u>Millions</u>	Adjustments <u>Millions</u>
Actual	2000	68.119545	68.119545	1863.986815	0.040000	10.810197	-12.712919
Actual	2001	63.423977	63.423977	1656.909416	0.040000	5.251000	-11.300000
Actual	2002	63.044975	63.044975	1671.589714	0.040000	4.705000	-9.888000
Actual	2003	64.767167	64.767167	1691.720391	0.040000	2.983000	-8.475000
Actual	2004	64.339197	64.339197	1703.300593	0.040000	3.890000	-7.063000
Actual	2005	65.236575	63.950808	1756.251400	0.040000	0.000000	-5.650000
Actual	2006	70.257071	69.199414	1836.487799	0.040000	0.000000	-4.238000
Forecast	2007	74.803000	73.745000	1940.708962	0.040000	0.000000	-2.825000
Forecast	2008	79.272000	78.214000	2017.121533	0.040000	0.000000	-1.413000
Forecast	2009	83.960000	82.902000	2098.989892	0.040000	0.000000	0.000000

	<u>t</u> <u>Fiscal</u>	Class 1 <u>Millions</u>	Class 2 <u>Millions</u>	Class 3 <u>Millions</u>	Class 4 <u>Millions</u>	Class 5 <u>Millions</u>	Class 6 <u>Millions</u>	Class 7 <u>Millions</u>
Actual	2000	7.026572	8.282057	139.192024	894.188310	37.015035	22.570979	1.881621
Actual	2001	5.178965	8.460976	139.318879	920.536186	39.008611	15.695230	0.155867
Actual	2002	7.842501	11.014983	139.057406	954.102342	35.667858	12.459077	0.189041
Actual	2003	8.691402	10.669321	138.900095	1002.873942	35.382198	6.167237	0.216414
Actual	2004	7.808005	8.799575	140.240224	1034.656439	32.725014	0.000000	0.995149
Actual	2005	8.032414	10.428300	139.901823	1076.984542	34.024275	0.000000	0.974316
Actual	2006	2.694216	13.045195	140.988242	1129.794467	34.611220	0.000000	0.953438
Forecast	2007	3.252295	21.106138	141.002419	1183.820993	35.077724	0.000000	1.068358
Forecast	2008	3.252292	27.186289	141.002419	1232.949564	35.077724	0.000000	1.118571
Forecast	2009	3.252292	32.162032	141.002419	1284.116971	35.077724	0.000000	1.171144

	<u>t</u> <u>Fiscal</u>	Class 8 <u>Millions</u>	Class 9 <u>Millions</u>	Class 10 <u>Millions</u>	Class 12 <u>Millions</u>	Class 13 <u>Millions</u>	TIF's <u>Millions</u>	Abatement <u>Millions</u>
Actual	2000	215.7480920	498.0302370	8.5200900	68.1925880	0.0000000	44.5355770	7.8747870
Actual	2001	112.7827340	230.8329780	8.7088490	49.6414440	147.1427500	28.4288400	7.8747870
Actual	2002	116.6052090	219.9557670	8.1987880	48.6583800	144.4880950	30.5295630	3.8798300
Actual	2003	118.3489260	206.3601230	7.1702390	46.6884790	137.1848470	30.8028320	3.8700000
Actual	2004	118.2969880	212.1109300	6.7892870	45.6302570	125.6225470	33.5621400	3.1883180
Actual	2005	117.2409840	219.9928240	6.7913820	45.0740610	120.4850650	27.7669030	4.0883170
Actual	2006	123.0549460	238.7666750	6.7937650	44.2672200	122.8459890	25.4644200	4.1368460
Forecast	2007	135.6127930	248.3201880	6.8155190	41.5768140	130.4757120	28.8302010	18.8545270
Forecast	2008	141.4441430	256.0181140	6.8291500	39.4646230	138.5652060	27.4523400	18.8545270
Forecast	2009	147.5262410	263.9546760	6.8428080	37.4597360	147.1562490	22.6793030	18.8545270

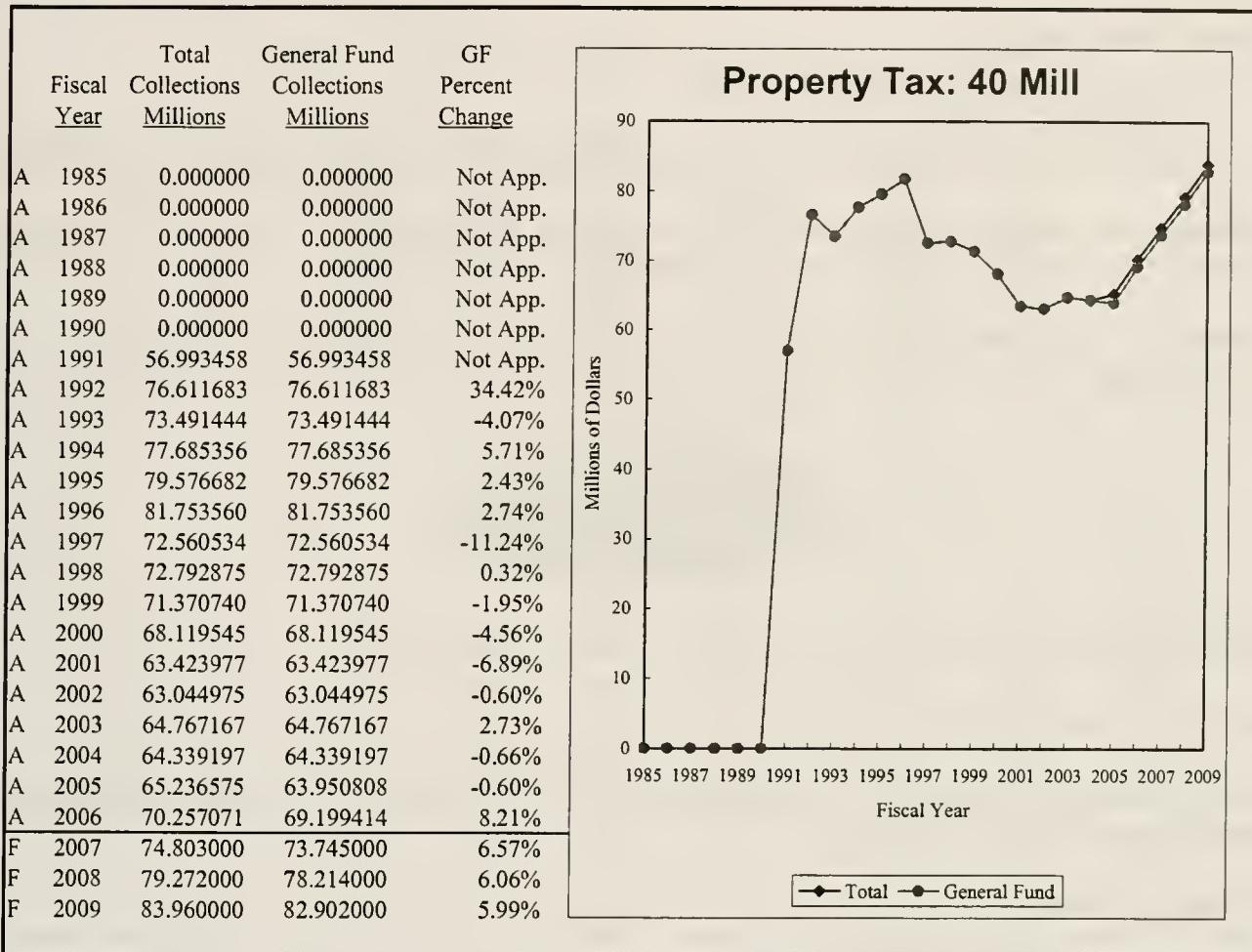
Total Tax = Tax Value \* Mills/1000 + Non-Levy + Adjustments

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 40 Mill

#### Revenue Projection:



**Data Source(s):** Department of Revenue (DOR), Office of Public Instruction (OPI), County Assessor Offices, Montana Association of Counties (MACO)

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 6 Mill

#### Statutory Reference:

Tax Rate (MCA) – 15-10-107

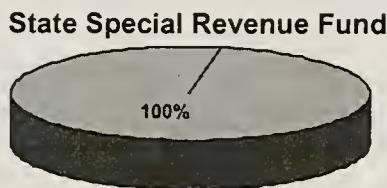
Tax Distribution (MCA) – 15-10-107

Date Due – one-half of taxes due November 30<sup>th</sup> and one-half due May 31<sup>st</sup> (15-16-102(1)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month (15-1-504(1))

**Applicable Tax Rate(s):** Each property class has its own tax rate, which is applied to the assessed value to produce a taxable value. For every \$1,000 in taxable value, 6 mills generate \$6 in state property taxes.

**Distribution:** All tax receipts are deposited into the university system 6 mill levy state special revenue account.

#### Distribution Chart:

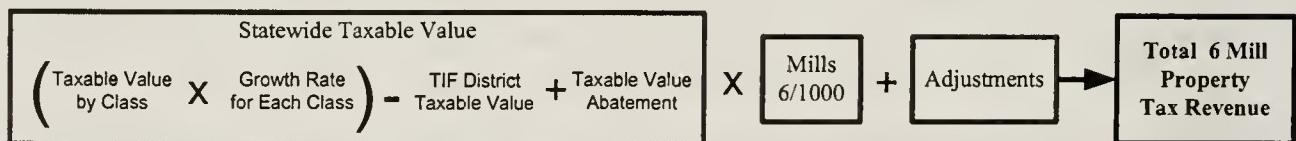


**Collection Frequency:** Monthly with significant state deposits in December and June.

**% of Total General Fund Revenue:** NA

**Revenue Estimate Methodology:** The methodology used to derive revenue from this source is explained in the methodology section under "Property Tax".

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 6 Mill

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Tax. Value <u>Millions</u>	Mills/1000 <u>Applied</u>	Non-Levy <u>Millions</u>	Adjustments <u>Millions</u>
Actual	2000	13.189138	0.000000	1900.647605	0.006000	2.584415	0.000000
Actual	2001	13.837616	0.000000	1677.463469	0.006000	1.758000	0.657843
Actual	2002	12.298211	0.000000	1698.239447	0.006000	1.588000	0.000000
Actual	2003	12.010924	0.000000	1722.523223	0.006000	1.082000	0.000000
Actual	2004	11.374292	0.000000	1736.862733	0.006000	0.000000	0.000000
Actual	2005	12.244984	0.000000	1784.018303	0.006000	0.000000	0.000000
Actual	2006	11.952119	0.000000	1861.952219	0.006000	0.000000	0.000000
Forecast	2007	12.505000	0.000000	1969.539163	0.006000	0.688000	0.000000
Forecast	2008	12.971000	0.000000	2044.573873	0.006000	0.704000	0.000000
Forecast	2009	13.359000	0.000000	2121.669195	0.006000	0.629000	0.000000

	<u>t</u> <u>Fiscal</u>	Class 1 <u>Millions</u>	Class 2 <u>Millions</u>	Class 3 <u>Millions</u>	Class 4 <u>Millions</u>	Class 5 <u>Millions</u>	Class 6 <u>Millions</u>	Class 7 <u>Millions</u>
Actual	2000	7.026572	8.282057	139.192024	894.188310	37.015035	22.570979	1.881621
Actual	2001	5.178965	8.460976	139.318879	920.536186	39.008611	15.695230	0.155867
Actual	2002	7.842501	11.014983	139.057406	954.102342	35.667858	12.459077	0.189041
Actual	2003	8.691402	10.669321	138.900095	1002.873942	35.382198	6.167237	0.216414
Actual	2004	7.808005	8.799575	140.240224	1034.656439	32.725014	0.000000	0.995149
Actual	2005	8.032414	10.428300	139.901823	1076.984542	34.024275	0.000000	0.974316
Actual	2006	2.694216	13.045195	140.988242	1129.794467	34.611220	0.000000	0.953438
Forecast	2007	3.252295	21.106138	141.002419	1183.820993	35.077724	0.000000	1.068358
Forecast	2008	3.252292	27.186289	141.002419	1232.949564	35.077724	0.000000	1.118571
Forecast	2009	3.252292	32.162032	141.002419	1284.116971	35.077724	0.000000	1.171144

	<u>t</u> <u>Fiscal</u>	Class 8 <u>Millions</u>	Class 9 <u>Millions</u>	Class 10 <u>Millions</u>	Class 12 <u>Millions</u>	Class 13 <u>Millions</u>	TIF's <u>Millions</u>	Abatement <u>Millions</u>
Actual	2000	215.748092	498.030237	8.520090	68.192588	0.000000	44.535577	7.874787
Actual	2001	112.782734	230.832978	8.708849	49.641444	147.142750	28.428840	7.874787
Actual	2002	116.605209	219.955767	8.198788	48.658380	144.488095	30.529563	3.879830
Actual	2003	118.348926	206.360123	7.170239	46.688479	137.184847	30.802832	3.870000
Actual	2004	118.296988	212.110930	6.789287	45.630257	125.622547	33.562140	3.188318
Actual	2005	117.240984	219.992824	6.791382	45.074061	120.485065	27.766903	4.088317
Actual	2006	123.054946	238.766675	6.793765	44.267220	122.845989	25.464420	4.136846
Forecast	2007	135.612793	248.320188	6.815519	41.576814	130.475712	28.830201	18.854527
Forecast	2008	141.444143	256.018114	6.829150	39.464623	138.565206	27.452340	18.854527
Forecast	2009	147.526241	263.954676	6.842808	37.459736	147.156249	22.679303	18.854527

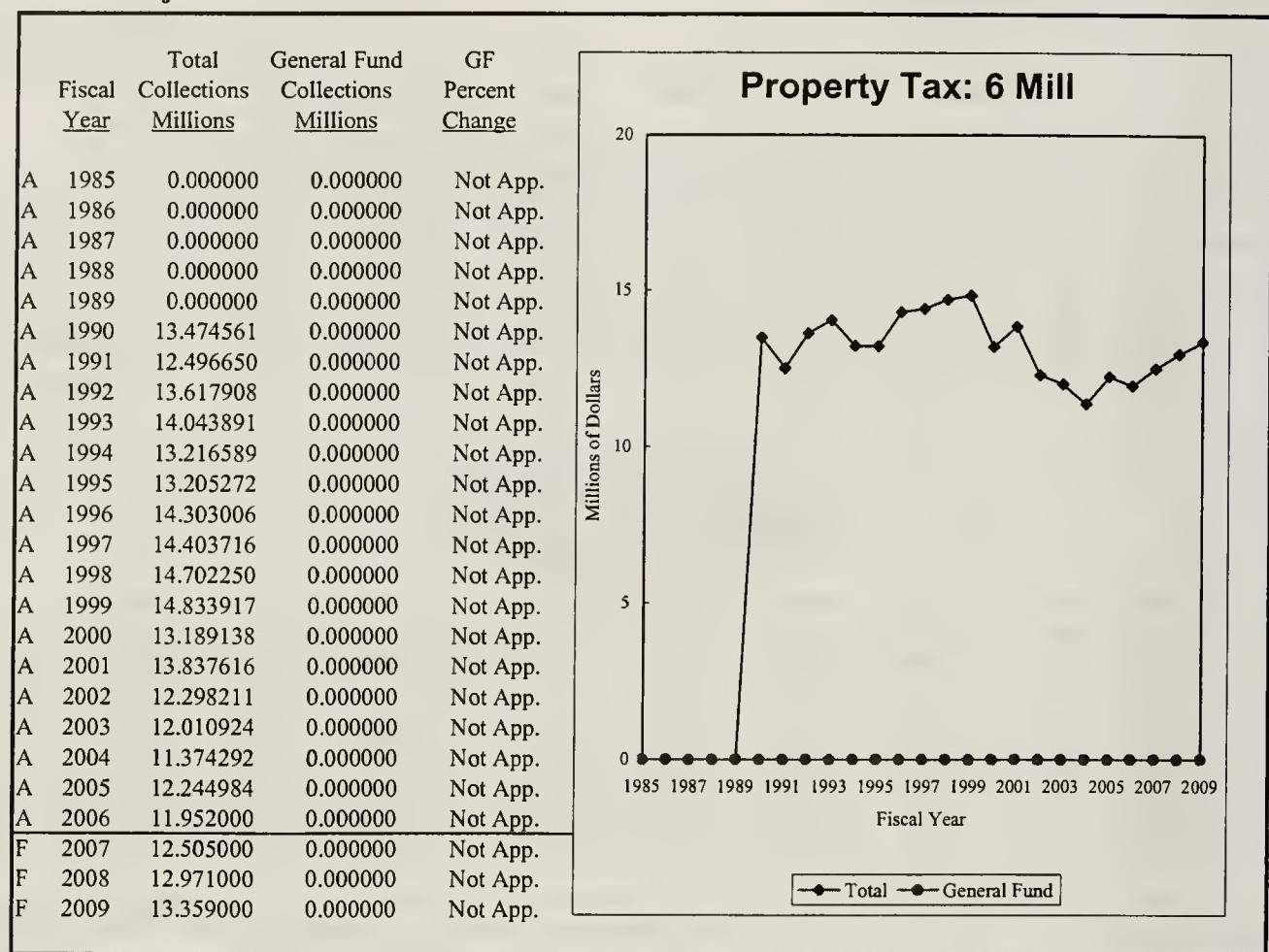
Total Tax = Tax Value \* Mills/1000 + Non-Levy + Adjustments

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 6 Mill

#### Revenue Projection:



**Data Source(s):** Department of Revenue (DOR), Office of Public Instruction (OPI), County Assessor Offices, Montana Association of Counties (MACO)

**Contacts:** Department of Revenue

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 6 Mill

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**Non Levy Revenue** includes federal forest receipts, coal gross proceeds revenue, and other revenue which is distributed to statewide and local mills in each county. Before July 1, 2001, vehicle fees in lieu of taxes, financial institution taxes, and reimbursements from the state were non levy revenue. Before January 1, 2003, oil and natural gas receipts were treated as non-levy revenue. The mills to which non levy revenue is distributed are unique for each county and each non levy revenue source. The state's portion of non-levy revenue is remitted to the state as a portion of the appropriate property tax. For instance, statewide 40 mill revenue includes a property tax portion and a non levy portion.

A description for each individual source follows below.

#### COAL GROSS PROCEEDS TAX

**Revenue Description:** The state imposes a gross proceeds tax of 5.0 percent on the gross value of coal produced by all the coal mines in the state. The gross value of coal is computed as the tonnage of coal produced and sold times the contract sales price. This is the same gross value as used in the calculation of the state coal severance tax.

The tax is applied to one year's worth of production and the producer is billed in the following year. The producer pays the tax to the county treasurer in which the mine is located in two equal installments. One is in November of the notice year and the other is in May of the following year. Once received by the county treasurer, the tax revenue is distributed one month after receipt.

#### **Statutory References:**

Tax Rate (MCA) – 15-23-703(1)  
Tax Distribution (MCA) – 15-23-703(3)

**Applicable Tax Rate(s):** The amount of tax due is 5.0 percent of the value of production as measured by the contract sales price for production in the preceding calendar year.

**Distribution:** The county treasurer distributes the coal gross proceeds tax based on the relative proportions of mill levies for the state, counties, and school districts as these existed in tax year 1989. At that time the county equalization mill levy was 45 mills. However, coal gross proceeds from new mines (starting business after December 31, 1988) are distributed across mill levies in the previous fiscal year.

**Collection Frequency:** The coal gross proceeds tax is collected twice annually in November and May. The state receives the tax revenue in December and June.

**% of Total FY 2006 General Fund Revenue:** Included in total property tax contribution.

**Data Source(s):** Coal Company Surveys, Department of Revenue, County Treasurers

**Contacts:** Coal Company Representatives, Department of Revenue, County Treasurers

# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 1.5 Mill

**Revenue Description:** Beginning in fiscal 1997, statute requires the boards of county commissioners in the five counties where colleges of technology reside, to levy 1.5 mills for deposit in the state general fund. This revenue component used to include collections from "non-levy" sources that are distributed on the basis of mills levied by taxing jurisdictions. HB 124, passed during the 2001 legislative session, eliminated distribution of non-levy sources to the 1.5 mill levy.

#### Statutory Reference:

Tax Rate (MCA) – 20-25-439(1)

Tax Distribution (MCA) – 20-25-439(2)

Date Due – one-half of taxes due November 30<sup>th</sup> and one-half due May 31<sup>st</sup> (15-16-102(1)), county treasurers must remit to the Department of Revenue within the first 20 days of each month money received in the previous month (15-1-504(1))

**Applicable Tax Rate(s):** Each property class has its own tax rate which is applied to assessed value to produce a taxable value. For every \$1,000 in taxable value, 1.5 mills generates \$1.50 in state property taxes.

**Distribution:** All property tax receipts are deposited into the general fund, except revenue associated with the 6-mill university levy.

#### Distribution Chart:

General Fund



**Collection Frequency:** Monthly with significant state deposits in December and June.

#### % of Total General Fund Revenue:

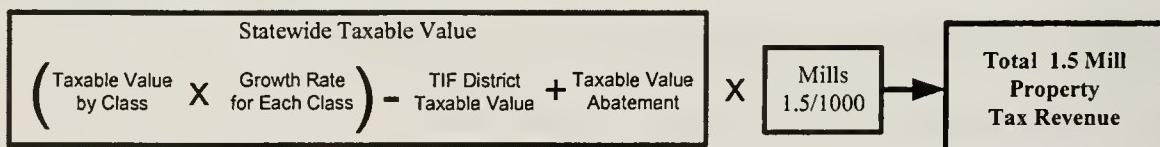
FY 2004 – 0.07 %

FY 2005 – 0.06%

FY 2006 – 0.06%

**Revenue Estimate Methodology:** The methodology used to derive revenue from this source is explained in the methodology section under "Property Tax".

#### Forecast Methodology:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 1.5 Mill

#### Revenue Estimate Assumptions:

	<u>t</u> <u>Fiscal</u>	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Tax. Value <u>Millions</u>	Mills/1000 <u>Applied</u>	Non-Levy <u>Millions</u>	Adjustments <u>Millions</u>
Actual	2000	0.930968	0.930968	618.047161	0.001500	0.121110	0.000000
Actual	2001	1.171643	1.171643	552.853841	0.001500	0.126000	0.038500
Actual	2002	0.918612	0.918612	563.452494	0.001500	0.020000	0.033688
Actual	2003	0.883986	0.883986	586.588275	0.001500	0.000000	0.000000
Actual	2004	0.967988	0.967988	596.512999	0.001500	0.000000	0.000000
Actual	2005	0.922474	0.903683	608.056452	0.001500	0.000000	0.000000
Actual	2006	0.959592	0.944963	662.811261	0.001500	0.000000	0.000000
Forecast	2007	1.040000	1.025000	693.488490	0.001500	0.000000	0.000000
Forecast	2008	1.087000	1.072000	724.926358	0.001500	0.000000	0.000000
Forecast	2009	1.137000	1.122000	757.911109	0.001500	0.000000	0.000000

	<u>t</u> <u>Fiscal</u>	Class 1 <u>Millions</u>	Class 2 <u>Millions</u>	Class 3 <u>Millions</u>	Class 4 <u>Millions</u>	Class 5 <u>Millions</u>	Class 6 <u>Millions</u>	Class 7 <u>Millions</u>
Actual	2000	7.026572	8.282057	139.192024	894.188310	37.015035	22.570979	1.881621
Actual	2001	5.178965	8.460976	139.318879	920.536186	39.008611	15.695230	0.155867
Actual	2002	7.842501	11.014983	139.057406	954.102342	35.667858	12.459077	0.189041
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Actual	2004	7.808005	8.799575	140.240224	1034.656439	32.725014	0.000000	0.995149
Actual	2005	8.032414	10.428300	139.901823	1076.984542	34.024275	0.000000	0.974316
Actual	2006	2.694216	13.045195	140.988242	1129.794467	34.611220	0.000000	0.953438
Forecast	2007	3.252295	21.106138	141.002419	1183.820993	35.077724	0.000000	1.068358
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Forecast	2009	3.252292	32.162032	141.002419	1284.116971	35.077724	0.000000	1.171144

	<u>t</u> <u>Fiscal</u>	Class 8 <u>Millions</u>	Class 9 <u>Millions</u>	Class 10 <u>Millions</u>	Class 12 <u>Millions</u>	Class 13 <u>Millions</u>	TIF's <u>Millions</u>	Abatement <u>Millions</u>
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Actual	2001	112.782734	230.832978	8.708849	49.641444	147.142750	28.428840	7.874787
Actual	2002	116.605209	219.955767	8.198788	48.658380	144.488095	30.529563	3.879830
Actual	2003	118.348926	206.360123	7.170239	46.688479	137.184847	30.802832	3.870000
Actual	2004	118.296988	212.110930	6.789287	45.630257	125.622547	33.562140	3.188318
Actual	2005	117.240984	219.992824	6.791382	45.074061	120.485065	27.766903	4.088317
Actual	2006	123.054946	238.766675	6.793765	44.267220	122.845989	25.464420	4.136846
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Forecast	2008	141.444143	256.018114	6.829150	39.464623	138.565206	27.452340	18.854527
Forecast	2009	147.526241	263.954676	6.842808	37.459736	147.156249	22.679303	18.854527

Total Tax = Tax Value \* Mills/1000 + Non-Levy + Adjustments

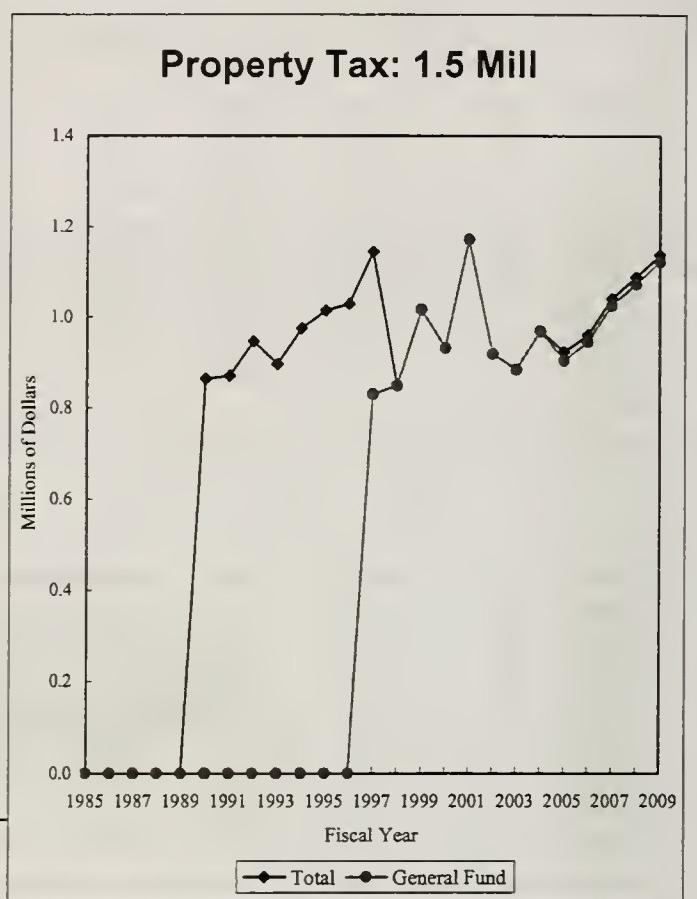
# Legislative Fiscal Division

## Revenue Estimate Profile

### Property Tax: 1.5 Mill

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.863590	0.000000	Not App.
A 1991	0.870302	0.000000	Not App.
A 1992	0.945934	0.000000	Not App.
A 1993	0.895874	0.000000	Not App.
A 1994	0.974589	0.000000	Not App.
A 1995	1.013989	0.000000	Not App.
A 1996	1.028520	0.000000	Not App.
A 1997	1.144082	0.830174	Not App.
A 1998	0.848762	0.848762	2.24%
A 1999	1.015894	1.015894	19.69%
A 2000	0.930968	0.930968	-8.36%
A 2001	1.171643	1.171643	25.85%
A 2002	0.918612	0.918612	-21.60%
A 2003	0.883986	0.883986	-3.77%
A 2004	0.967988	0.967988	9.50%
A 2005	0.922474	0.903683	-6.64%
A 2006	0.959592	0.944963	4.57%
F 2007	1.040000	1.025000	8.47%
F 2008	1.087000	1.072000	4.59%
F 2009	1.137000	1.122000	4.66%



**Data Source(s):** Department of Revenue (DOR), Office of Public Instruction (OPI), County Assessor Offices, Montana Association of Counties (MACO)

**Contacts:** Department of Revenue

# Other General Fund Revenue

All Other Revenue  
Highway Patrol Fines  
Nursing Facilities Fee  
Public Institution Reimbursements  
Tobacco Settlement



[www.leg.mt.gov/css/fiscal](http://www.leg.mt.gov/css/fiscal)



# Legislative Fiscal Division

## Revenue Estimate Profile

### All Other Revenue

**Revenue Description:** There are a number of other taxes, fees, and fines that historically have generated less than \$2.5 million each in annual general fund revenue. In addition, the statutes governing these miscellaneous taxes, fees, and fines are frequently changed, making meaningful comparison between tax years impractical and accurate estimation of the revenue difficult.

“All Other Revenue” sources are estimated in aggregate except for the following: reimbursements for health insurance tax credit (enacted by the 2005 legislature in House Bill 667), court automation surcharge (enacted by the 2005 legislature in House Bill 536 and effective through FY 2009), investment license transfers, liquor license fee transfers, civil fines, single state registration system fees (through December 2006 only), lodging facility use tax, Montana University System debt service deposits, transfer of excess cigarette tax revenue in the veterans account administered by DPHHS, deposits by state agencies for SWCAP/ SFCAP, district court fees, BOI reimbursement of State Street Banking fees, transfers of excess coal tax revenue in the shared account, bentonite tax enacted in SB 276 by the 2005 legislature, and transfers of the excess over \$2.0 million from the veterans’ cigarette tax account. In the past, wildfire cost reimbursements had been included in the revenue source, but beginning in fiscal 2003 they are deposited to the federal special revenue fund.

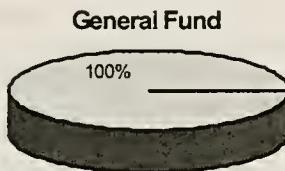
A one-time revenue adjustment of \$450,000 was added in fiscal 2007 for State Auditor security settlements.

**Statutory Reference:** Various

**Applicable Tax Rate(s):** Various

**Distribution:** “All Other Revenue” is deposited in the general fund.

Distribution Chart:



**Collection Frequency:** The various revenue sources are generally collected on a monthly basis.

**% of Total General Fund Revenue:**

FY 2004 - 2.19%  
FY 2005 - 2.27%  
FY 2006 - 1.87%

**Revenue Estimate Methodology:**

There are numerous smaller sources of revenue deposited to the general fund that are treated as a single source termed “All Other”. Fourteen of these revenue sources are estimated individually with the remainder estimated as a group.

Data

Numerous data sources are consulted for each of the applicable 14 revenue sources that are estimated individually.

Analysis

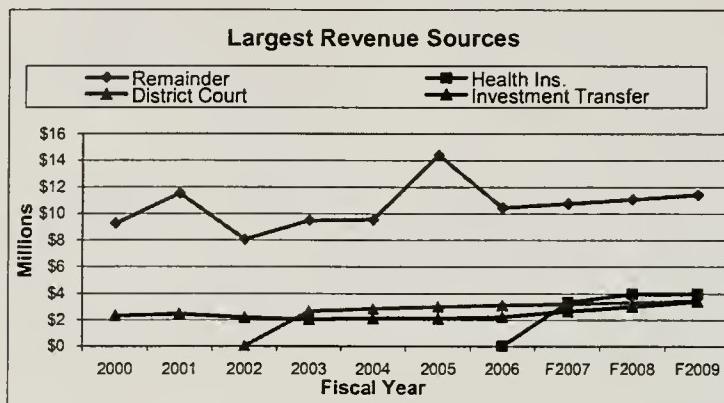
1. Largest Revenue Sources (see the figure below)

# Legislative Fiscal Division

## Revenue Estimate Profile

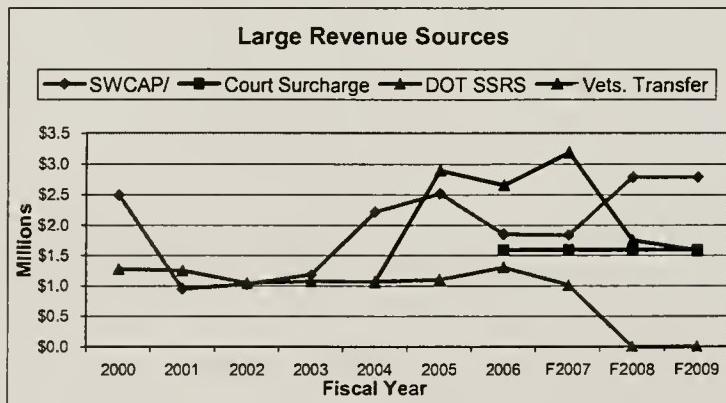
### All Other Revenue

- a. The remainder of "All Other" revenue, after the 14 revenue sources have been estimated individually, is estimated by applying a 3.0 percent growth rate to the previous fiscal year.
- b. Health Insurance Tax Credit Reimbursement - The estimated amounts are amounts appropriated in HB 2 that the State Auditor's Office needs to reimburse the general fund for revenue lost through tax credits for providing health insurance for FY 2007-2009.
- c. District Court Fees – The previous year's amount is increased by the growth rate between the prior two years.
- d. Investment License Fee Transfer – The transfer amount is the net between non-general fund investment fee revenue collected by the State Auditor and its expenses. These amounts are determined in the "Investment License Fee" revenue source.



#### 2. Large Revenue Sources (see the figure below)

- a. Statewide Cost Allocation Plan – Amounts budgeted for agencies in HB 2 for the SWCAP are used for the amounts from this source.
- b. Court Surcharge – FY 2006 collections are carried forward in each of the succeeding years.
- c. Single State Registration System – Estimates for this source are made in the "Gross Vehicle Weight" revenue source section. Since passage of the new federal highway legislation eliminates the SSRS (and associated state fee), revenue from this source terminates January 2007.
- d. Veteran's Cigarette Account Transfer – Money in the account at the end of a fiscal year in excess of \$2.0 million is transferred to the general fund. To estimate the excess amounts, distributions of cigarette tax revenue to the account (as determined in the "Cigarette Tax" revenue source) is reduced by budgeted present law amounts from the account for each fiscal year obtained from MBARS. The \$2.0 million limit is then subtracted from the net revenue.



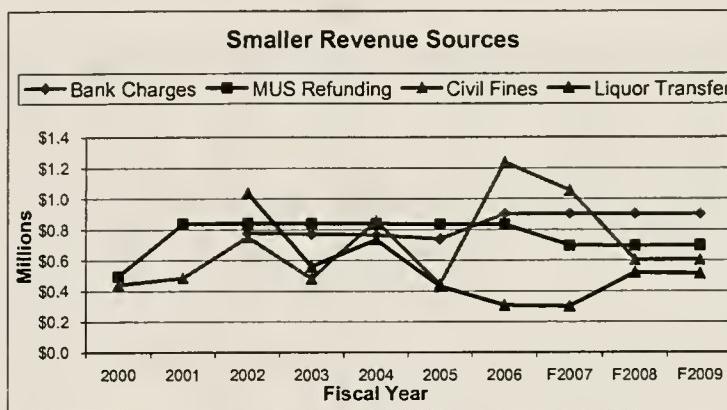
# Legislative Fiscal Division

## Revenue Estimate Profile

### All Other Revenue

#### 3. Smaller Revenue Sources (see the figure below)

- a. Banking Charges – The rate the Board of Investments charges funds for its services is determined by a contract with a financial institution. Board personnel expect the FY 2007 charges to be the same as FY 2006. Since the current contract expires the end of FY 2007 and the new rate will not be known until then, the FY 2006 amount is used for the 2009 biennium.
- b. Montana University System Refunding – Payments are determined by a loan repayment schedule calculated by the Department of Administration.
- c. Civil Fines – The average of fine revenue from FY 2000 to FY 2006 (with the maximum and minimum amounts removed) is used for FY 2007 – 2009. The FY 2007 amount is supplemented by \$450,000 of security settlement revenue anticipated by the State Auditor's Office.
- d. Liquor License Fee Transfer – Money collected from liquor license fees, net of operating costs of the Department of Revenue and Department of Justice, is transferred to the general fund. License fee revenue and operating costs (obtained from MBARS budgets) are estimated and shown in the “Liquor Profits” revenue source.



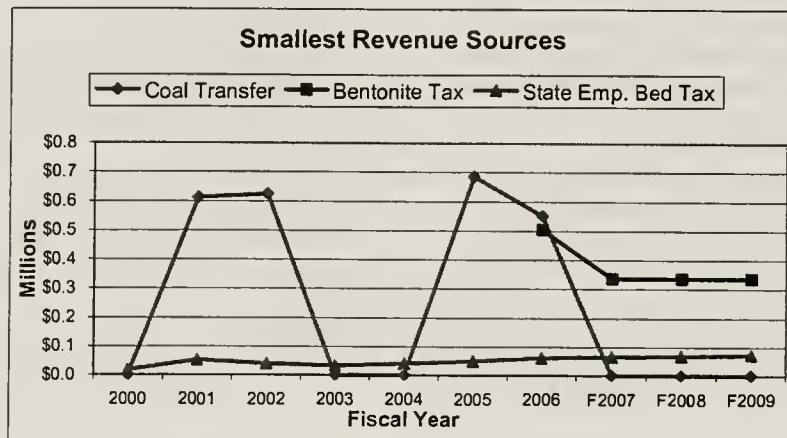
#### 4. Smallest Revenue Sources (see the figure below)

- a. Coal Shared Account Transfer – Any excess fund balance in the account is transferred to the general fund. To estimate the excess amounts, distributions of coal severance tax revenue to the account (as determined in the “Coal Severance Tax” revenue source) is reduced by budgeted present law amounts for each fiscal year from the account obtained from MBARS.
- b. Bentonite Tax – FY 2006 collections are adjusted to reflect a single year of revenue and carried forward for FY 2007 – FY 2009.
- c. State Employees Lodging Facility Use Tax – Revenue from this tax paid by state employees is returned to the funds from which they were paid, including the general fund. The general fund estimate is calculated by multiplying the estimate for non-general fund (estimated in the “Lodging Taxes” revenue source) by the ratio of the previous lodging facility use tax general fund portion to the total non-general fund portion.

# Legislative Fiscal Division

## Revenue Estimate Profile

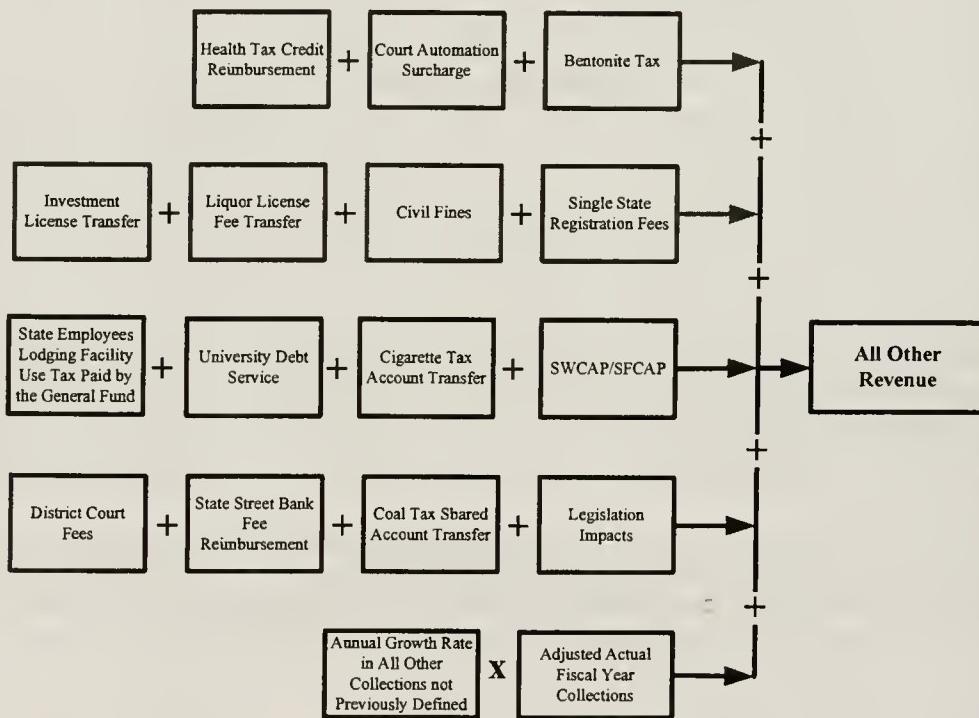
### All Other Revenue



#### Adjustments and Distribution

Once total revenue for each fiscal year is determined 100 percent of the revenue is distributed to the general fund.

#### Forecast Methodology



# Legislative Fiscal Division

## Revenue Estimate Profile

### All Other Revenue

#### Revenue Estimate Assumptions

	<u>t</u>	Total Tax	GF Tax	Base	Annual	Adjustments	Vet. Account	One-Time
	Fiscal	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	Growth	<u>Millions</u>	Transfer	Transfer
Actual	2000	20.488330	20.488330	9.216695	-24.5934%			
Actual	2001	51.821783	51.821783	11.509661	24.8784%			
Actual	2002	43.215892	43.215892	8.025926	-30.2679%	1.162288		
Actual	2003	42.440179	42.440179	9.474137	18.0442%	21.282497		
Actual	2004	30.241562	30.241562	9.529089	0.5800%	8.189612	1.054958	
Actual	2005	34.724084	34.724084	14.380616	50.9128%	0.000000	2.893230	4.767070
Actual	2006	31.867090	31.867090	10.424440	-27.5105%	0.000000	2.652808	0.781063
Forecast	2007	31.542000	31.542000	10.737173	3.0000%	0.000000	3.188227	0.000000
Forecast	2008	30.877000	30.877000	11.059288	3.0000%	0.000000	1.748587	0.000000
Forecast	2009	31.550000	31.550000	11.391067	3.0000%	0.000000	1.579500	0.000000

	<u>t</u>	Investment				MSU&EMC	SABHRS
	Fiscal	Transfer	Land Grant	Civil Fines	GVW Fees	Accom. Tax	Debt
Actual	2000	2.296258	0.086129	0.439498	1.275935	0.016878	0.495693
Actual	2001	2.445000	0.091699	0.484739	1.252221	0.052215	0.837170
Actual	2002	2.179165	0.000000	0.749382	1.044512	0.038912	0.839583
Actual	2003	2.036200	0.000000	0.480945	1.071278	0.032547	0.838186
Actual	2004	2.113000	0.000000	0.855870	1.067278	0.040021	0.837743
Actual	2005	2.110000	0.000000	0.442752	1.100125	0.048903	0.833016
Actual	2006	2.234000	0.000000	1.238230	1.304052	0.061096	0.831704
Forecast	2007	2.658000	0.000000	1.052738	1.008987	0.065000	0.695734
Forecast	2008	3.006000	0.000000	0.602738	0.000000	0.068000	0.694164
Forecast	2009	3.401000	0.000000	0.602738	0.000000	0.072000	0.697341

	<u>t</u>	FEMA	Coal	SFCAP	Liquor License	District	Bank
	Fiscal	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000	0.000000	0.000000	2.486250	0.000000	0.000000	0.000000
Actual	2001	31.097802	0.611432	0.949777	0.000000	0.000000	0.000000
Actual	2002	23.246341	0.623227	1.023875	1.036184	0.000000	0.777640
Actual	2003	0.000000	0.000000	1.179279	0.558198	2.664891	0.771108
Actual	2004	0.000000	0.000000	2.214579	0.734102	2.839310	0.766000
Actual	2005	5.540426	0.684019	2.514237	0.431146	3.009058	0.736556
Actual	2006	3.535414	0.550453	1.844039	0.305976	3.107784	0.902735
Forecast	2007	0.000000	0.244723	1.836574	0.667707	3.209749	0.902735
Forecast	2008	0.000000	0.000000	2.785109	0.819382	3.315059	0.902735
Forecast	2009	0.000000	0.000000	2.785109	0.818218	3.423824	0.902735

	<u>t</u>	Court Surchage	Health Ins.	Bentonite
	Fiscal	<u>Millions</u>	<u>Millions</u>	<u>Millions</u>
Actual	2000			
Actual	2001			
Actual	2002			
Actual	2003			
Actual	2004			
Actual	2005			
Actual	2006	0.000000	1.589184	0.504112
Forecast	2007	3.349000	1.589184	0.336075
Forecast	2008	3.950276	1.589184	0.336075
Forecast	2009	3.950286	1.589184	0.336075

Total Rev. = Base \* (1+ Annual Growth) + Vet. Account Transfer + Investment Transfer + Civil Fines + GVW Fees + Accom. Tax + MSU&EMC Debt + Coal Transfer + SFCAP/SWCAP +

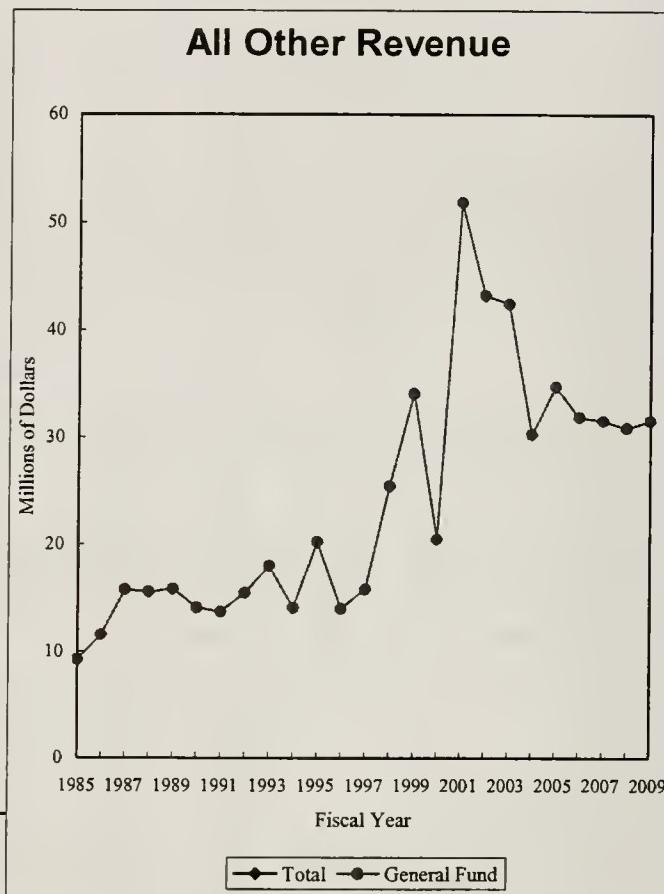
# Legislative Fiscal Division

## Revenue Estimate Profile

### All Other Revenue

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	9.230178	9.230178	Not App.
A 1986	11.580707	11.580707	25.47%
A 1987	15.768806	15.768806	36.16%
A 1988	15.558294	15.558294	-1.33%
A 1989	15.834736	15.834736	1.78%
A 1990	14.097344	14.097344	-10.97%
A 1991	13.741633	13.741633	-2.52%
A 1992	15.466237	15.466237	12.55%
A 1993	17.993470	17.993470	16.34%
A 1994	14.105385	14.105385	-21.61%
A 1995	20.217103	20.217103	43.33%
A 1996	14.000938	14.000938	-30.75%
A 1997	15.822433	15.822433	13.01%
A 1998	25.427788	25.427788	60.71%
A 1999	34.096246	34.096246	34.09%
A 2000	20.488330	20.488330	-39.91%
A 2001	51.821783	51.821783	152.93%
A 2002	43.215892	43.215892	-16.61%
A 2003	42.440179	42.440179	-1.79%
A 2004	30.241562	30.241562	-28.74%
A 2005	34.724084	34.724084	14.82%
A 2006	31.867090	31.867090	-8.23%
F 2007	31.542000	31.542000	-1.02%
F 2008	30.877000	30.877000	-2.11%
F 2009	31.550000	31.550000	2.18%



**Data Source(s):** SABHRS, Office of Budget and Program Planning, Department of Justice, Department of Public Health and Human Services, Department of Administration, Department of Revenue, and the State Auditor

**Contacts:** Multiple state agencies

# Legislative Fiscal Division

## Revenue Estimate Profile

### Highway Patrol Fines

**Revenue Description:** The Montana Highway Patrol issues citations for speeding, driving under the influence of alcohol or drugs, and other misdemeanors. The fines and forfeitures associated with these citations are collected by various state and local courts.

#### Statutory Reference:

Tax Rate (MCA) – general fines (61-3-601, 61-5-307, 61-7-118, 61-8-711, 61-9-511), multiple others

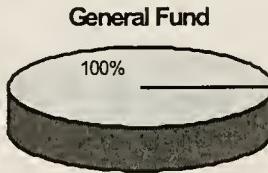
Tax Distribution (MCA) – 3-10-601 (fines collected in justice court are included in “All Other General Fund”), 61-10-148 (violations of vehicle size, weight & load), 61-12-701 (fines by Highway Patrol)

Date Due – upon conviction

**Applicable Tax Rate(s):** Fines for citations are variable.

**Distribution:** All of Highway Patrol fines and forfeitures on all offenses that result from citations issued by the Highway Patrol, except those paid to a justices' court, received by the state are deposited in the general fund.

#### Distribution Chart:



**Collection Frequency:** Monthly

#### % of Total General Fund Revenue:

FY 2004 – 0.30%

FY 2005 – 0.28%

FY 2006 – 0.25%

#### Revenue Estimate Methodology:

The estimate for the highway patrol fine revenue is derived by estimating a growth rate for each of the fiscal years for the 3-year period in question.

#### Data

Data from the statewide accounting system (SABHRS) provide a history of highway patrol fine revenue.

#### Analysis

The estimate for highway patrol fines is derived by multiplying the revenue amount from the last known fiscal year by a growth factor. Due to effective dates and errors in the fiscal notes of legislation from the 2005 legislative session, FY 2006 collections do not accurately reflect a full year of collections. Therefore, to estimate FY 2007, effects of the legislation are first removed from FY 2006 collections and then a growth rate of the average annual growth between FY 2000 and FY 2005 is applied. Legislation impacts estimated for FY 2007 are then added back. The methodology is also used for the 2009 biennium estimates.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Highway Patrol Fines



#### Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentage, 100 percent to the general fund, is applied.

#### Forecast Methodology



#### Revenue Estimate Assumptions

	<u>t</u> Fiscal	Total Tax Millions	GF Tax Millions	Fine Growth Rate
Actual	2000	4.027557	4.027557	0.071580
Actual	2001	3.980688	3.980688	-0.011637
Actual	2002	4.061733	4.061733	0.020360
Actual	2003	4.109703	4.109703	0.011810
Actual	2004	4.084340	4.084340	-0.006171
Actual	2005	4.292730	4.292730	0.051022
Actual	2006	4.316381	4.316381	0.005510
Forecast	2007	4.926000	4.926000	0.141309
Forecast	2008	4.974000	4.974000	0.009758
Forecast	2009	5.023000	5.023000	0.009788

Total Tax = Previous year \* (1 + Growth Rate)

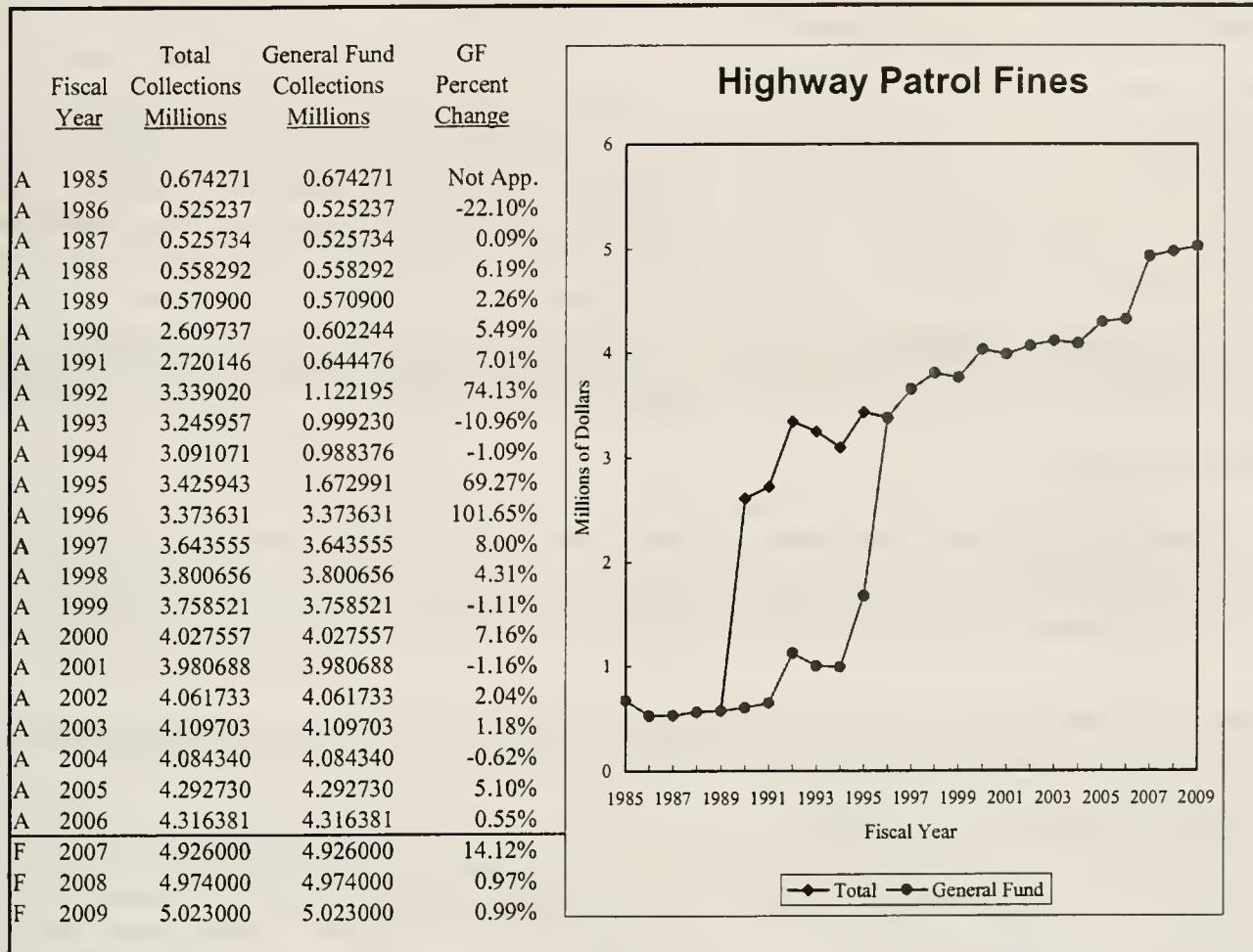
GF Tax = Total Tax

# Legislative Fiscal Division

## Revenue Estimate Profile

### Highway Patrol Fines

#### Revenue Projection:



**Data Source(s):** Department of Justice, Highway Patrol, SABHRS

**Contacts:** Department of Justice, Highway Patrol

# Legislative Fiscal Division

## Revenue Estimate Profile

### Nursing Facilities Fee

**Revenue Description:** This source consists of two similar utilization fees on nursing homes: 1) nursing facility utilization fee; and 2) intermediate care facility utilization fee.

With the enactment of House Bill 749 by the 2005 legislature, qualified nursing facilities are required to pay a nursing facility utilization fee of \$8.30 for each bed day in the facility. Nursing facilities are health care facilities licensed by the Department of Public Health and Human Services and include those operated for profit or non-profit, freestanding or part of another health facility, and publicly or privately owned. Specifically included by statute is the Montana Mental Health Nursing Care Center. According to federal definitions, nursing facilities do not include adult foster homes, retirement homes, and other alternative living arrangements. Bed days are defined as a 24-hour period in which a resident of a nursing facility is present in the facility or in which a bed is held for a resident while on temporary leave.

An intermediate care facility utilization fee is imposed on resident bed days of intermediate care facilities for the mentally retarded. The only qualifying facility is the Montana Developmental Center. With the enactment of Senate Bill 82 by the 2005 legislature, the fee is six percent of a facility's quarterly revenue divided by the quarterly bed days.

#### Statutory Reference:

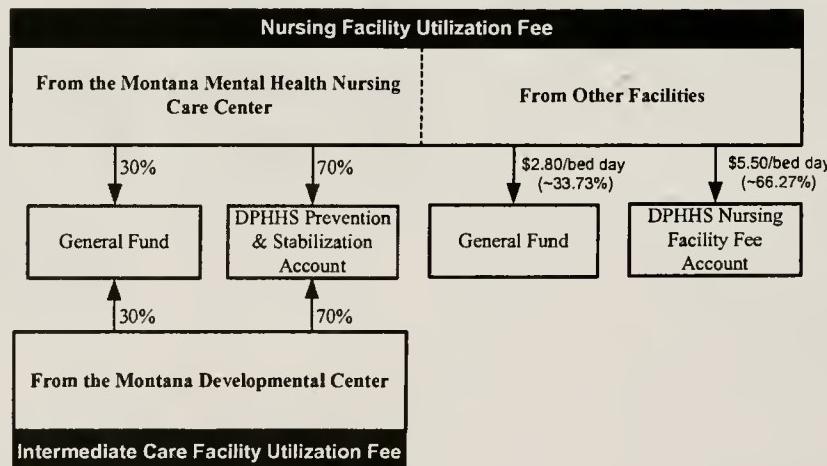
Tax Rate (MCA) – Nursing facility utilization fee (15-60-102), intermediate care facility utilization fee (15-67-102(2))  
Tax Distribution (MCA) – Nursing facility utilization fee (15-60-102 & 15-60-210), intermediate care facility utilization fee (15-67-102(3))

Date Due – Nursing facility utilization fee due the last day of the month following the close of the calendar quarter (15-60-201), intermediate care facility utilization fee due the month following the close of the calendar quarter (15-67-201(1))

**Applicable Tax Rate(s):** 1) Nursing facility utilization fee – \$8.30 per bed day; 2) Intermediate care facility utilization fee – 6 percent of a facility's quarterly revenue divided by the quarterly bed days

**Distribution:** Nursing facility utilization fee: 1) for fees paid by the Montana Mental Health Nursing Care Center – 30 percent to the general fund and 70 percent to the prevention and stabilization account (for use by the Department of Public Health and Human Services to provide health and human services); 2) for all other facilities - \$2.80/bed day to the general fund, and \$5.50/bed day to the nursing facility fee account (for use by the Department of Public Health and Human Services to increase the average price paid for Medicaid nursing home services). Intermediate care facility utilization fee: for fees paid by the Montana Developmental Center – 30 percent to the general fund and 70 percent to the prevention and stabilization account.

#### Distribution Chart:



# Legislative Fiscal Division

## Revenue Estimate Profile

### Nursing Facilities Fee

**Collection Frequency:** Quarterly

#### % of Total General Fund Revenue:

FY 2004 – 0.43%  
FY 2005 – 0.39%  
FY 2006 – 0.33%

#### Revenue Estimate Methodology:

##### Data

To create the nursing facility fees projection, data are obtained from the Department of Revenue (DOR), the Department of Public Health and Human Services (DPHHS) and the state accounting system (SABHRS). DOR provides the number of taxable bed days occupied by clientele of private and state run nursing homes. DPHHS provides counts on the bed days at the Montana Developmental Center (MDC) and total revenues collected, which are used in the calculation of the intermediate care facility fee. SABHRS data provides aggregate historic collections of the nursing facility fees. No adjustments to the raw data are required in the data step for the nursing facility fee analysis.

##### Analysis

Nursing facility fees consist of two distinct fees, the nursing facility fee and the intermediate care facility fee. Consequently, two techniques are required to estimate the collection of these fees. The nursing facility fees are estimated using a log model to project future bed days at nursing care facilities. MDC is the only intermediate care facility in Montana and the only facility subject to the intermediate care facility fee. The intermediate facility fee is projected by applying a growth rate to the last year of actual revenue collections at MDC, fiscal 2006.

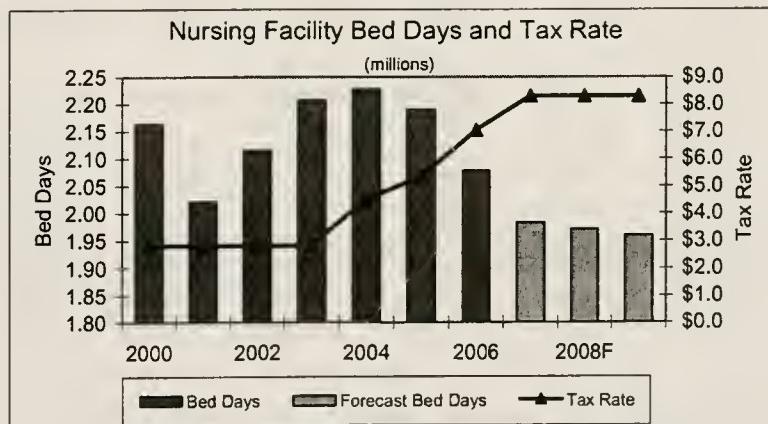
Total nursing fee revenue has increased since fiscal 2003, as a result of fee increases and new fees, but as seen in the figure below the number of taxable bed days at nursing care facilities has declined at the same time. Overall, taxable bed days have been in decline since the fee was imposed in the mid 1990's. Consequently, taxable nursing facility bed days are projected with a log model which smoothes the excessive variability in the data for the purpose of measurement. To obtain the projection for nursing facility fees, the following equation is employed:

$$\text{Projected Nursing Facility Fees} = \text{TBD}_{\text{NCF}} * \text{NFFR}$$

Where:

$\text{TBD}_{\text{NCF}}$  = Taxable Bed Days, Nursing Care Facilities

NFFR = Nursing Facility Fee Rate



The statistics of fit show that a logarithmic curve accurately measures the rate of growth in the number of taxable nursing facility

# Legislative Fiscal Division

## Revenue Estimate Profile

### Nursing Facilities Fee

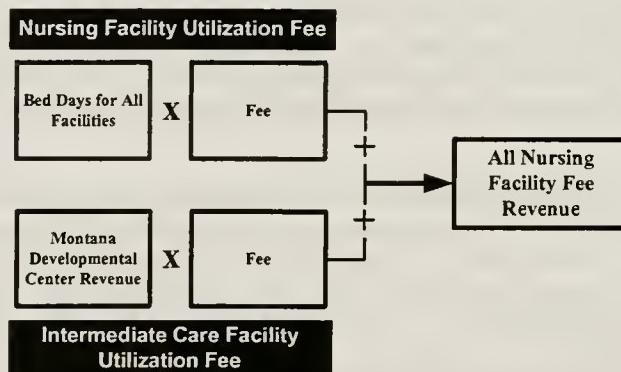
bed days in Montana. The model has an  $R^2$  rating of 0.986. This means that the linear trend explains 98.6 percent of the variability of the number of taxable nursing facility bed days in Montana, when all other impacts are held constant.\* The model projects compound growth of approximately -1.0 percent per fiscal year resulting in bed day projections of 1.98 million, 1.97 million, and 1.96 million in fiscal 2007 through fiscal 2009, respectively. By applying the current fee of \$8.30 to the projected taxable bed days, the resulting projections are \$16.5 million, \$16.4 million, and \$16.3 million in fiscal 2007 through fiscal 2009, respectively.

The intermediate care facility fee is assessed against the per-bed day receipts of the facility. Because the intermediate care facility fee is a relatively new fee, there is only a limited amount of data to use in the projection of future fee collections. As a result, the fee is projected by applying the rate of growth in the revenues from the last year of actual collection, the base year, to the subsequent three years. The rate of revenue growth at MDC between fiscal years 2005 and 2006 was 0.60 percent. In applying that rate of growth to the fiscal 2006 base, projections equal \$902,638 in fiscal 2007, \$908,081 in fiscal 2008, and \$913,556 in fiscal 2009.

Finally, the fiscal year projections are summed to provide the total nursing facility fees estimates. The resulting estimates are \$17.4 million in fiscal 2007, \$17.3 million in fiscal 2008, and \$17.2 million in fiscal 2009.

\*For additional information concerning the statistics of fit for the model used for this projection, contact the Legislative Fiscal Division.

#### Forecast Methodology:



#### Revenue Estimate Assumptions:

	<u>t</u> Fiscal	Total Tax <u>Millions</u>	GF Tax <u>Millions</u>	Nursing Facilities Fee	Bed Days	Intermediate Care Rate	Intermediate Care Revenue	MMHNCC <u>Millions</u>
Actual	2000	6.054947	6.054947	2.800000	2.113805			
Actual	2001	5.655978	5.655978	2.800000	2.083501			
Actual	2002	5.918173	5.918173	2.800000	2.072696			
Actual	2003	6.178135	5.859870	2.800000	2.047881	5.0000%	9.093277	
Actual	2004	10.021866	5.915841	4.500000	2.043377	5.0000%	17.262568	
Actual	2005	11.602112	5.911586	5.300000	2.015377	5.0000%	14.864154	
Actual	2006	14.649976	5.711693	7.050000	1.979893	6.0000%	14.953790	
Forecast	2007	17.361000	5.814000	8.300000	1.982894	6.0000%	15.044000	0.232000
Forecast	2008	17.266000	5.781000	8.300000	1.970756	6.0000%	15.135000	0.231000
Forecast	2009	17.179000	5.752000	8.300000	1.959590	6.0000%	15.226000	0.229000

Total Tax = Nursing Facilities \* Bed + Intermediate Care Rate \* Intermediate Care Revenue

GF Tax = MMHNCC \* 30% + (Nursing Fee \* Bed Days - MMHNCC) \* \$2.80/\$8.30 +

Care Revenue \* Care Rate \* 30%

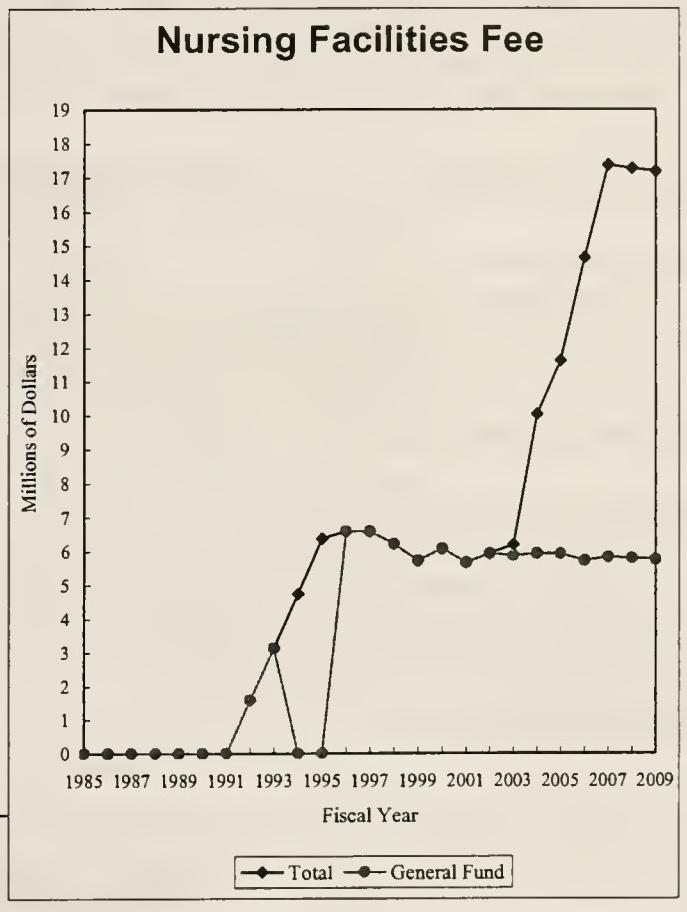
# Legislative Fiscal Division

## Revenue Estimate Profile

### Nursing Facilities Fee

#### Revenue Projection:

Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	1.587432	1.587432	Not App.
A 1993	3.131331	3.131331	97.26%
A 1994	4.739832	0.000000	-100.00%
A 1995	6.364377	0.000000	Not App.
A 1996	6.579620	6.579620	Not App.
A 1997	6.572123	6.572123	-0.11%
A 1998	6.200413	6.200413	-5.66%
A 1999	5.713357	5.713357	-7.86%
A 2000	6.054947	6.054947	5.98%
A 2001	5.655978	5.655978	-6.59%
A 2002	5.918173	5.918173	4.64%
A 2003	6.178135	5.859870	-0.99%
A 2004	10.021866	5.915841	0.96%
A 2005	11.602112	5.911586	-0.07%
A 2006	14.649976	5.711693	-3.38%
F 2007	17.361000	5.814000	1.79%
F 2008	17.266000	5.781000	-0.57%
F 2009	17.179000	5.752000	-0.50%



**Data Source(s):** Department of Public Health and Human Services, Nursing Facilities

**Contacts:** Department of Public Health and Human Services

# Legislative Fiscal Division

## Revenue Estimate Profile

### Public Institution Reimbursements

**Revenue Description:** The Department of Public Health and Human Services receives reimbursement for the cost of sheltering and treating residents at the Montana Developmental Center (MDC), the Montana Mental Health Nursing Care Center, Montana State Hospital (MSH), Eastern Montana Veterans' Home, Montana Chemical Dependency Treatment Center, and the Montana Veterans' Home. There are four sources of reimbursement income: 1) state and federally matched Medicaid monies; 2) insurance proceeds from companies with whom the resident is insured; 3) payments by residents or persons legally responsible for them; and 4) federal Medicare funds. Most of the reimbursements come from federal Medicaid payments.

Three variables determine the level of Medicaid nursing home payments: 1) the number of patient days eligible for Medicaid reimbursement; 2) the reimbursement rate per patient day; and 3) the private resources of Medicaid patients.

#### Statutory Reference:

Tax Rate (MCA) – 53-1-402 (requirement to pay)

Tax Distribution (MCA) – 53-1-413

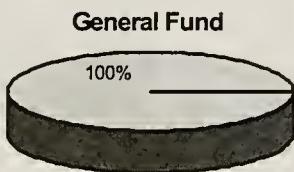
Date Due – monthly (53-1-405(3))

#### Applicable Tax Rate(s): N/A

**Distribution:** Revenue collected from the above sources are deposited in the general fund with the following exceptions:

1. Reimbursements from MDC and MSH are first used to pay debt service on bonds issued to fund construction at these facilities. The remainder is deposited into the general fund.
2. Reimbursements received for the Veterans' Home and Montana Chemical Dependency Treatment Center are deposited into a state special revenue account and appropriated to the institutions.

#### Distribution Chart:



#### Collection Frequency: Monthly

#### % of Total General Fund Revenue:

FY 2004 – 1.31%

FY 2005 – 0.82%

FY 2006 – 0.75%

#### Revenue Estimate Methodology:

##### Data

Data are collected from the Department of Public Health and Human Services (DPHHS) and the state accounting system (SABHRS) to develop the estimate for the public institution reimbursements. In addition to residency data, DPHHS provides the data used to develop relationships of payment patterns of individuals and insurance companies to the federal government reimbursements (Medicaid and Medicare). DPHHS also provides estimates on future Federal Medical Assistance Percentage (FMAP) rates. SABHRS provides historical data used to assess the accuracy of the estimates.

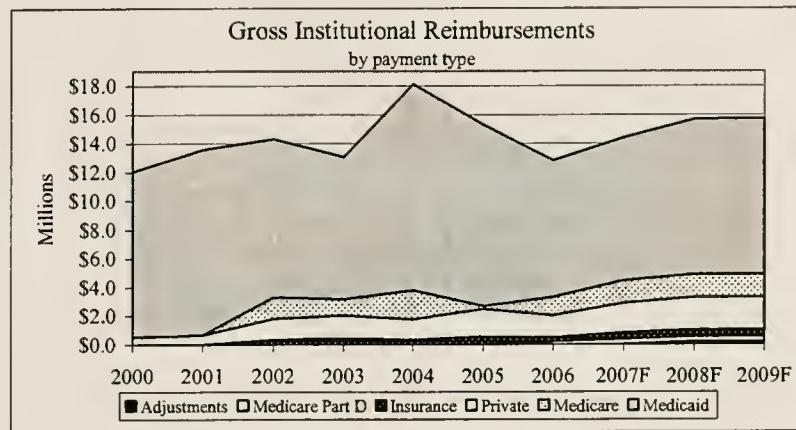
# Legislative Fiscal Division

## Revenue Estimate Profile

### Public Institution Reimbursements

#### Analysis

The largest component of Montana's institutional reimbursements is Medicaid, as seen in the figure below. Medicaid and Medicare payments are responsible for most of the variability in reimbursement collections. Consequently, the variability can in large part be attributed to the changes in the FMAP rates for the state. The FMAP rates are set annually based on the state's relative per capita income. States like Montana, with a relatively low per capita income and a higher FMAP rate, receive more federal assistance than states with a higher per capita income. If the state per capita income rises in relation to other states, the FMAP rate and federal reimbursements will decline. Most of the Medicare payments result from billings at Montana State Hospital (MSH), while most Medicaid payments are generated through Montana Mental Health Care Center (MMHCC).



Estimates for institutional reimbursements are derived using average daily population (ADP) estimates and reimbursement rates provided by DPHS for three state hospitals: the Montana Dependency Center (MDC), MMHCC, and MSH. Both the ADP and the facility rates are estimated with expected growth percentages. The ADP is adjusted by Medicare and Medicaid eligibility rates, as determined by DPHS. The FMAP rate, provided to DPHS in terms of federal fiscal year, is adjusted for the state fiscal year.

The equation for calculating the reimbursements for each facility follows:

$$\text{Reimbursements} = (\text{ADPI} * \text{RateI}) + (\text{ADPP} * \text{RateP}) + (\text{ADPMR} * \text{EligMR} * \text{RateMR} * \text{FMAP}) + (\text{ADPMMD} * \text{EligMD} * \text{RateMD} * \text{FMAP}_{\text{MD}})$$

Where:

ADP = Average Daily Population

I = Insurance

P = Private

MR = Medicare

MD = Medicaid

ELIG = Eligibility Rate

FMAP = Federal Medical Percentage

According to DPHS, bed days are expected to decline at MDC and MSH in the next biennium, while the bed days at MMHCC are expected to increase slightly. The FMAP rates are expected to be 69.35 percent, 68.63 percent, and 68.41 percent in fiscal years 2007 through 2009, respectively. Private rates are expected to grow at a rate of nearly 1.5 percent over the biennium at all three facilities. Insurance payments are expected to remain relatively constant over the biennium. The estimates of the three facilities are summed by payment type. Private payments are estimated to be \$2.0 million, \$2.2 million, and \$2.3 million for fiscal years 2007 through 2009, respectively. The estimates for insurance payments are \$481,478; \$482,797; and \$481,479 for fiscal 2007 through fiscal 2009, respectively. Medicaid payments are expected to be \$9.93 million, \$10.81 million, and \$10.86 million through the three years of this analysis. Medicare payments are estimated at \$1.6 million over the three-year period. New since FY 2006 are Medicare Part D reimbursements to MMHCC. Medicare Part D is reimbursed at a rate of \$11.32/eligible bed day. This rate is not expected to change over the next biennium and results in reimbursements of approximately \$330,000 annually. Finally, adjustments are made in fiscal years 2008 and 2009 for the evaluation of patients who are considered "unfit to proceed". The \$200,000 adjustment is a component of the Judiciary present law budget. The final step in creating the reimbursement

# Legislative Fiscal Division

## Revenue Estimate Profile

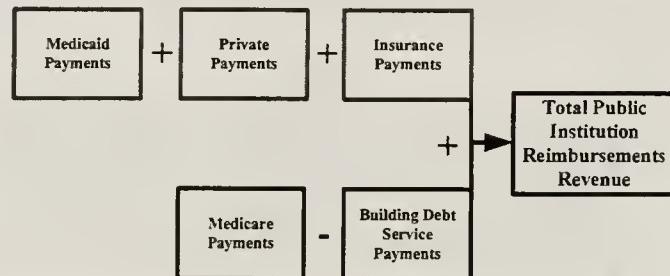
### Public Institution Reimbursements

estimate is to combine the estimates by payment type estimates. When combined, the estimate for gross reimbursements is \$11.5 million in fiscal 2007, \$12.7 million in fiscal 2008, and \$12.8 million in fiscal 2009.

#### Adjustment and Distribution

Two adjustments are required to complete the estimates for institutional reimbursements. Gross reimbursements must be reduced by two debt service payments for each fiscal year. The debt service is the result of bonds issued for the purpose of facility upgrades. After subtracting the debt service reimbursement collections are \$11.5 million in fiscal 2007, \$12.1 million in fiscal 2008, and \$12.2 million in fiscal 2009.

#### Forecast Methodology



#### Revenue Estimate Assumptions

t	Fiscal	Total Rev. Millions	GF Rev. Millions	Private Millions	Insurance Millions	Medicaid Millions	Medicare Millions
Actual	2000	11.345440	11.345440	0.512403	0.000257	12.490967	0.003044
Actual	2001	13.553585	13.553585	0.649965	0.000498	12.887899	0.015223
Actual	2002	14.282894	14.282894	1.483431	0.317047	10.994744	1.487671
Actual	2003	13.042526	13.042526	1.564208	0.451974	9.900342	1.126001
Actual	2004	18.110443	18.110443	1.424453	0.311203	14.336601	2.038187
Actual	2005	12.508688	12.508688	1.887627	0.556631	12.631385	0.210973
Actual	2006	12.727569	12.727569	1.534775	0.283624	9.531139	1.273948
Forecast	2007	11.451000	11.451000	2.040264	0.481478	9.928238	1.593920
Forecast	2008	12.742000	12.742000	2.245158	0.482797	10.808917	1.598224
Forecast	2009	12.810000	12.810000	2.272478	0.481479	10.857125	1.593858

t	Fiscal	MDC Debt Millions	MSH Debt Millions	Adjustments Millions	Medicare Part D Millions
Actual	2000	0.965496	0.000000		
Actual	2001	1.079220	1.909252	0.000000	
Actual	2002	1.075405	1.911032	0.000000	
Actual	2003	1.045873	1.776461	-1.572893	
Actual	2004	0.868888	1.752261	-3.180119	
Actual	2005	1.005833	1.785072	0.012977	
Actual	2006	0.950665	1.775375	0.000000	0.104083
Forecast	2007	1.014610	1.909308	0.000000	0.331370
Forecast	2008	1.017060	1.908388	0.200000	0.332278
Forecast	2009	1.016810	1.909688	0.200000	0.331370

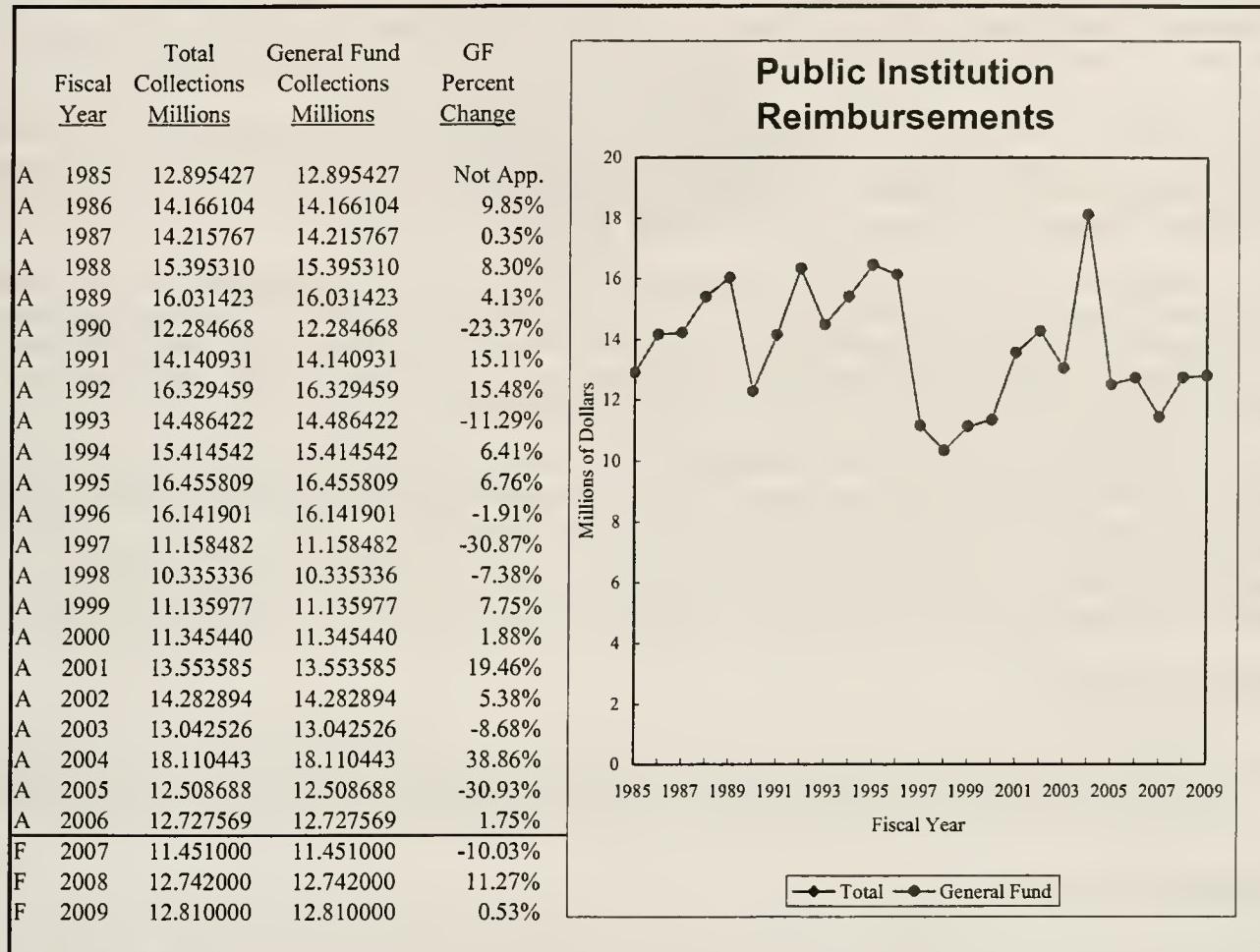
Total Rev. = Private + Insurance + Medicaid + Medicare - MDC Debt - MSH Debt + Adjustments + Medicare Part D  
 GF Rev. = Total Rev.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Public Institution Reimbursements

#### Revenue Projection:



**Data Source(s):** SABHRS, Department of Public Health and Human Services

**Contacts:** Department of Public Health and Human Services

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

**Revenue Description:** Montana receives revenue as a settling party to a Master Settlement Agreement (MSA) with four original tobacco companies and 46 subsequent companies to end a four-year legal battle with 46 states, Puerto Rico, American Samoa, the U.S. Virgin Islands, the North Mariana Island, Guam and the District of Columbia (52 total settling entities).

Montana is eligible for four types of payments: 1) reimbursement for legal costs (received December 1999); 2) five initial payments (Two were received in fiscal 2000 and one each year was received in fiscal years 2001, 2002, and 2003); 3) on-going, perpetual annual payments; and 4) strategic contribution payments (from fiscal years 2008 through 2017). The MSA places no restrictions on how the settling parties spend the money.

The total amount of tobacco settlement funds available to Montana is affected by a number of adjustments. These may include inflation, sales volume changes, non-participating manufacturers (NPM) adjustment for the loss of market shares, operating income of the original four tobacco companies, number and operating income of subsequent participating manufactures, number of states reaching state specific finality, settlements reached by the four states not party to the agreement (Florida, Texas, Minnesota, and Mississippi), litigation offsets, disputed payments, and federal tobacco legislation offsets among others.

The reduction for the NPM adjustment was first included in the revenue estimates beginning fiscal 2006. Amounts paid by manufacturers who participate in the MSA may decrease if they have lost market shares and it is proven that a significant portion of the loss (to companies not participating in the MSA) is due to the disadvantages caused by the MSA. An economics firm must determine if this is the case. The adjustment does not apply if a state has enacted "model statutes" and enforced them. Although it has not yet been determined if all these conditions have been met, it is expected that participating manufactures will withhold a portion of their payments in disputed escrow accounts until the matter is resolved, thus reducing payments to the settling entities.

#### Statutory Reference:

Tax Rate – NA

Tax Distribution (MCA) – Montana Constitution, Article X11, Section 4; 17-6-606; 53-4-1011

Date Due – annual payments from settling entities due April 15<sup>th</sup> (Master Settlement Agreement, Chapter IX(c)), General Tobacco annual payments through calendar 2016 due August 30<sup>th</sup> (General Tobacco Adherence Agreement)

#### Applicable Tax Rate(s): NA

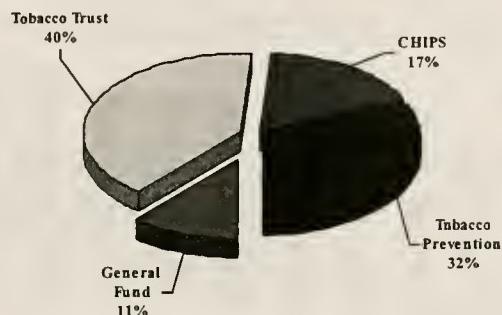
**Distribution:** Due to passage of Constitutional Amendment 35 by the electorate in November 2000, the legislature is required to dedicate no less than 40 percent of tobacco settlement money to a permanent trust fund. Since the legislature has not yet determined the exact percentage to be deposited to the trust fund, the revenue estimate assumes 40 percent. For fiscal 2003, the remaining 60 percent of the money was deposited to the general fund. Due to passage of Initiative 146 by the electorate in November 2002, beginning fiscal 2004, 32 percent of the tobacco settlement money funds tobacco prevention programs and 17 percent of the funds is used for the Children's Health Insurance Program. The remaining 11 percent of the money is deposited to the general fund.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

#### Distribution Chart:



**Collection Frequency:** For fiscal 2003: The last initial payment is expected January 10, 2003 and the annual payment is expected April 15<sup>th</sup> 2003. Beginning fiscal 2004: Annual payments are expected each April 15<sup>th</sup> into perpetuity. General Tobacco, a new subsequent participating manufacturer, is required to make annual payments every August 30<sup>th</sup> through calendar 2016 for obligations incurred from 2000 to 2003.

#### % of Total General Fund Revenue:

FY 2004 - 0.21%  
FY 2005 - 0.19%  
FY 2006 - 0.16%

#### Revenue Estimate Methodology:

The derivation of the tobacco settlement revenue estimate involves many factors. The Master Settlement Agreement specifies base amounts to be paid by all participating manufacturers, but also allows various adjustments to be made to these payments.

#### Data

The Master Settlement Agreement, signed by the settling entities and participating tobacco manufacturers (PM), is the driving document for the procedure to use in determining how much the original participating manufacturers (OPM) to the agreement and the subsequent participating manufacturers (SPM) have to pay to the settling entities. PriceWaterhouseCoopers, the independent auditor to the agreement, gathers all the data and makes all the calculations required by the Master Settlement Agreement for determining what the PM owe. Documents produced by PriceWaterhouseCoopers provide the historic data needed to project future payments. Staff at the Montana Attorney General's office and the National Association of Attorneys General is also consulted. Since an adjustment for a change in volume of cigarettes shipped is necessary, various knowledgeable sources are consulted as to expected changes in smoking or the sale of cigarettes.

#### Payments

Currently, there are two types of payments from OPM:

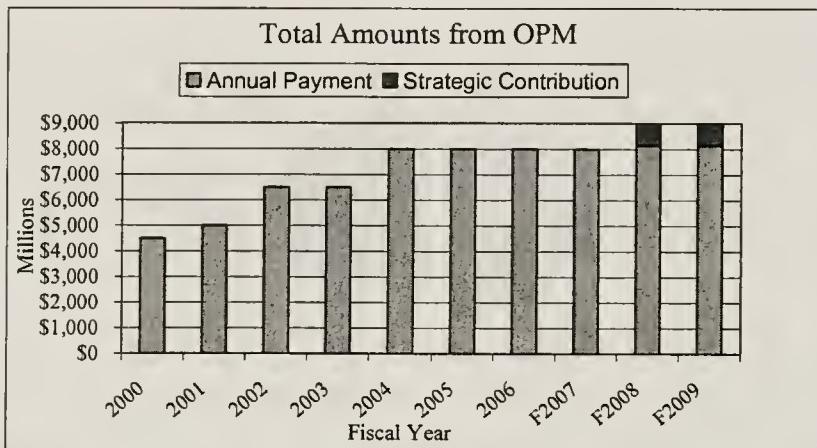
1. On-going annual payments to be received April 15<sup>th</sup> each year of which Montana receives 0.4247591 percent. These payments are to be made in perpetuity and increase in FY 2008; and
2. Strategic contribution payments are to be made from FY 2008 through FY 2017 of which Montana receives 1.0447501 percent.

The table below shows the total of these payments available to all settling entities before any adjustments.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

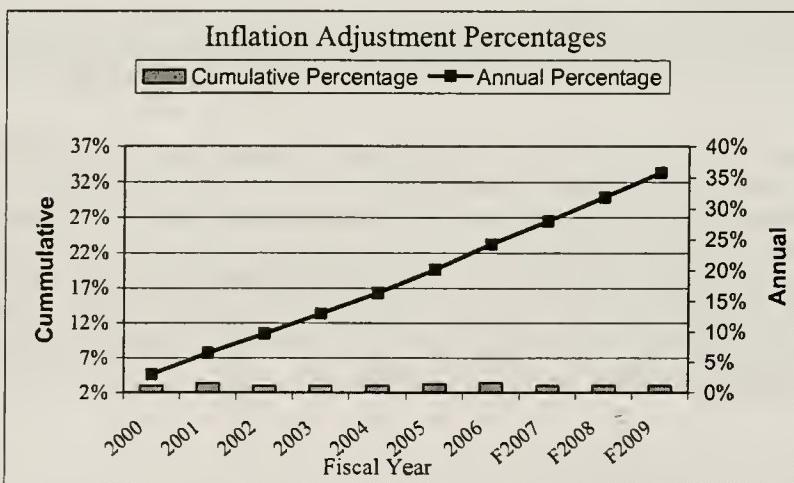


Manufacturers who subsequently participate in the agreement also make payments based on the total annual payments (but not strategic contribution payments) owed by the OPM. The amount of these payments is also subject to various adjustments.

#### Adjustments

There are five potential adjustments to the payments.

1. Inflation – This adjustment increases the amount owed by PM. The set amounts of the annual and the strategic contribution payments are increased by the greater of 3.0 percent or the amount of the Consumer Price Index for Urban Consumers. The effect is cumulative so that the previous year's inflation percentage is increased by the current year's amount plus the amount of the current year's percentage. The chart shows the annual and cumulative inflation factors.

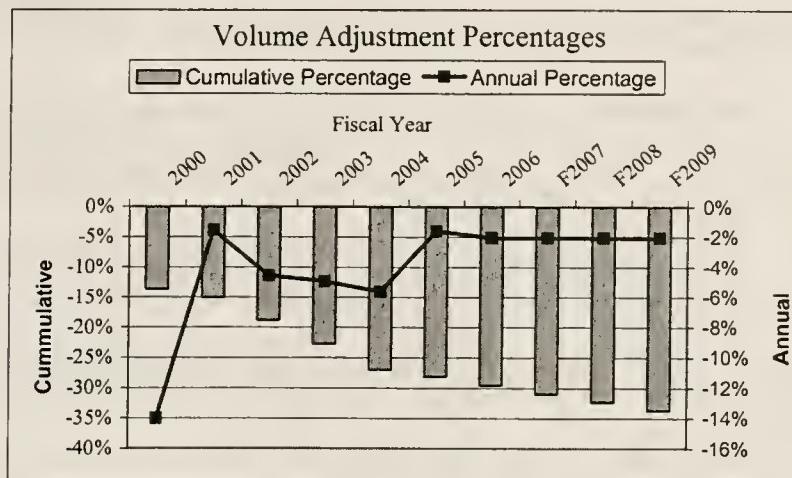


2. Volume – As the number of cigarettes shipped nationally decreases, payments by PM are reduced. The current number of cigarettes is compared to the 1997 base number of 475.656 billion cigarettes. A proxy for the estimated annual change in the number of cigarettes shipped is determined by developing an estimate for the percentage change in cigarette consumption. Like the inflation adjustment, the effect is cumulative so that the previous year's percentage adjustment is increased by the current year's amount plus the amount of the current year's percentage. According to the settlement agreement, the cumulative percentage is then reduced by 2 percent. The chart shows the annual and adjusted cumulative volume factors.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement



3. Operating income – If the aggregate operating income from the OPM sales of cigarettes exceeds the 1996 base amount of \$7,060.840 million, as adjusted for inflation (see above) and by the percentage of states who have finalized acceptance of the agreement (100 percent since calendar 2001), then the dollar amount of the volume reduction is reduced and the amount of OPM payments increases. This adjustment has not been applied since calendar 2000.
4. Previous settling states – Previous to the Master Settlement Agreement, four states had settled lawsuits with certain cigarette manufacturers. The agreement recognized this by allowing reductions to the OPM annual payments (as adjusted for inflation and volume) of 12.45 percent through the FY 2007 payment, 12.24 percent through the FY 2017 payment, and 11.07 percent thereafter.
5. Non-participating manufacturers (NPM) – If tobacco manufacturers who participate in the Master Settlement Agreement lose market share to those manufacturers who do not, their payments may be reduced. It must be shown that there was a loss of market share to NPM and that the disadvantages caused by the agreement were a significant factor contributing to the loss. However, the NPM adjustment does not apply to a state that had a “qualifying statute” in effect for the full year in question and had diligently enforced it. The “qualifying statute” requires a manufacturer who is not a PM to pay into a state-specific escrow account \$0.0167539 per cigarette sold in that state in CY 2006 and \$0.0188482 thereafter. Money in the account may be used to pay a judgment or settlement against the manufacturer. The Montana legislature enacted SB 359 (1999 session) and HB 663 (2003 session) in response to the agreement (see Title 15, Chapter 11, Parts 4 and 5). Although the agreement’s independent auditor calculates the NPM adjustment, it has never applied it to required payments.

The NPM adjustment is three times the market share loss of PM. Market share loss is determined by subtracting the current year market share of PM from the 1997 base market share of 99.5835 percent less 2.0 percentage points or 97.5835 percent. This percentage difference is multiplied by the annual payment amount adjusted for inflation, volume, and previous settling states. If the computed market share loss exceeds 16-2/3 percent, the formula changes to reduce the percentage adjustment. For this to occur, the change in market share for all PM would have to fall to 80 percent. It is unlikely that this will occur. Based on this formula, the NPM adjustment would reduce Montana’s payments by \$3.1 million in FY 2007, \$3.3 million in FY 2008 and \$3.5 million in FY 2009, if all the conditions were met. The estimates include these reductions; not because all the conditions have been met, but because the PM may dispute a portion of a payment. Many PM feel the adjustment should be applied and have subsequently deposited disputed amounts into special escrow accounts until the issue is resolved. The end result for the settling entities is that some portion of the money is unavailable even though the adjustment was not applied to the payments. This occurred in the FY 2006 payment when \$3.5 million was withheld from Montana’s payment. It is anticipated that PM will continue to dispute a portion of future payments.

From FY 2002 – FY 2005, the agreement’s independent auditor has applied the formula and calculated NPM adjustments. If it is found that all necessary conditions have been met for these years, Montana is at risk of losing an additional \$14.4 million.

# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

#### Analysis

Once adjustments amounts have been calculated, the applicable adjustments to the OPM and SMP payments can be applied and other revenue components calculated.

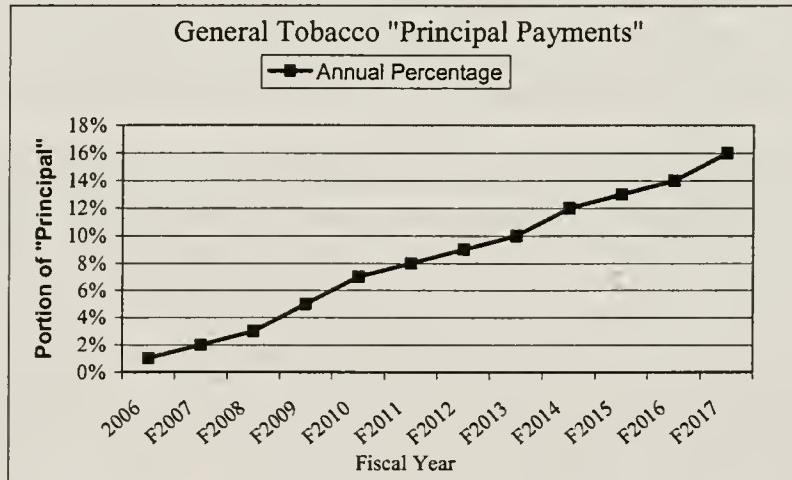
OPM Annual Payment - The estimate for tobacco settlement revenue from OPM is derived by first multiplying the payment amount by 1 plus the cumulative percentages for the inflation and volume adjustments and the previous settled states' percentage then adding the dollar amount of the operating income adjustment (zero) and the NPM adjustment. To this total amount, Montana's allocation of 0.4247591 percent is applied.

SPM Annual Payment - The estimate for tobacco settlement revenue from SPM is derived by a five-step process:

1. The volume adjustment (a reduction) is calculated by multiplying the annual OPM amount by the cumulative volume percentage.
2. A market share adjustment (a reduction) is calculated by subtracting the volume adjustment, derived above, and the base amount due from SPM from the OPM annual amount. Since the base amount is not likely to increase, the amount from the last known fiscal year is used.
3. The inflation adjustment (an addition) is calculated by multiplying the cumulative inflation percentage by the sum of: a) the OPM annual payment; b) the volume adjustment (number 1 above); and c) the market adjustment (number 2 above).
4. The NPM adjustment (a possible reduction), as determined above, is calculated.
5. The total SPM amount is adjusted by the above four adjustments and multiplied by 0.4247591 percent to obtain Montana's share.

OPM Strategic Contribution Payment – From FY 2008 through FY 2017, the OPM owe yearly strategic contribution payments to the settling entities in the amount of \$861,000,000. This amount is increased by the inflation adjustment and decreased by the volume adjustment, both described above. The result is multiplied by Montana's share of 1.0447501 percent.

General Tobacco – The General Tobacco Company joined the Master Settlement Agreement in August 2004 and will make future payments the same as the other SPM. However, the company entered into a separate agreement with the settling entities for making the required payments owed retroactively from the date of its joining to the date the Master Settlement Agreement was signed. These obligations total \$272.3 million. This “principal” amount will be paid yearly over a 12-year period based on a percentage schedule based on the year.



For fiscal years 2008 and 2009, the percentage of the “principal” to be paid is three percent and five percent, respectively. Interest on unpaid balances at five percent is then added to the “principal” payment. Once the total annual payment is calculated, it is multiplied by 0.4247591 percent to obtain Montana's share.

# Legislative Fiscal Division

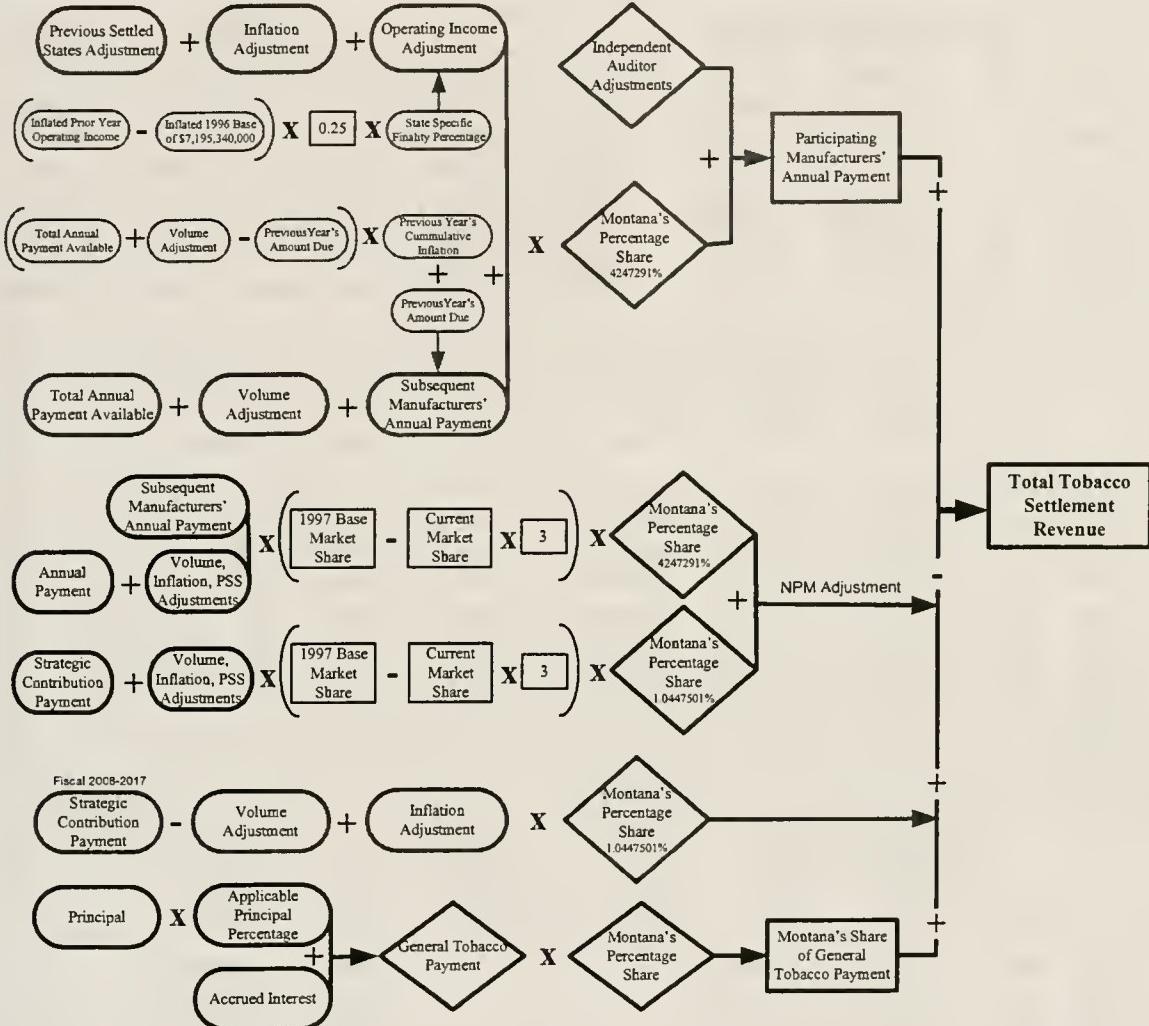
## Revenue Estimate Profile

### Tobacco Settlement

#### Adjustments and Distribution

Once total tax revenue for each fiscal year is determined, the applicable distribution percentages are applied.

#### Forecast Methodology



# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

#### Revenue Estimate Assumptions

	<u>t</u> <u>Fiscal</u>	Total Settle <u>Millions</u>	GF Settle <u>Millions</u>	Initial Payment <u>Millions</u>	Annual Payment <u>Millions</u>	Annual Share <u>Percent</u>	PSS Reduction <u>Percent</u>	GF Allocation <u>Percent</u>
Actual	2000	34.804411	34.804411	4872.000000	4500.000000	0.004247591	-0.124500000	1.000000
Actual	2001	26.639851	15.989101	2546.160000	5000.000000	0.004247591	-0.124500000	0.600195
Actual	2002	31.079018	18.647411	2622.544800	6500.000000	0.004247591	-0.124500000	0.600000
Actual	2003	31.166018	18.699611	2701.221144	6500.000000	0.004247591	-0.124500000	0.600000
Actual	2004	26.672072	2.933928	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Actual	2005	27.070703	2.977777	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Actual	2006	24.851033	2.733614	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Forecast	2007	25.654000	2.822000	0.000000	8000.000000	0.004247591	-0.124500000	0.110000
Forecast	2008	35.049000	3.855000	0.000000	8139.000000	0.004247591	-0.122373756	0.110000
Forecast	2009	36.323000	3.996000	0.000000	8139.000000	0.004247591	-0.122373756	0.110000

	<u>t</u> <u>Fiscal</u>	Annual Vol. Change <u>Percent</u>	Cummulative Vol. Change <u>Percent</u>	Adjustment Factor <u>Percent</u>	Adjusted Vol. Change <u>Percent</u>	Annual CPI Change <u>Percent</u>	Cummulative CPI Change <u>Percent</u>
Actual	2000	-0.140094943	-0.140094943	0.980000000	-0.137293044	0.030000000	0.030000000
Actual	2001	-0.015542065	-0.153459643	0.980000000	-0.150390450	0.033868093	0.064884100
Actual	2002	-0.045780332	-0.192214542	0.980000000	-0.188370251	0.030000000	0.096830600
Actual	2003	-0.049400356	-0.232119431	0.980000000	-0.227477042	0.030000000	0.129735500
Actual	2004	-0.056361859	-0.275398607	0.980000000	-0.269890635	0.030000000	0.163627600
Actual	2005	-0.016096976	-0.287062498	0.980000000	-0.281321248	0.032555600	0.201510200
Actual	2006	-0.020662729	-0.301793732	0.980000000	-0.295757857	0.034156600	0.242549700
Forecast	2007	-0.020662729	-0.316220579	0.980000000	-0.309896167	0.030000000	0.279826200
Forecast	2008	-0.020662729	-0.330349328	0.980000000	-0.323742341	0.030000000	0.318221000
Forecast	2009	-0.020662729	-0.344186138	0.980000000	-0.337302415	0.030000000	0.357767600

	<u>t</u> <u>Fiscal</u>	Op. Income Adjustment <u>Millions</u>	SPM Payment <u>Millions</u>	General Tobacco <u>Millions</u>	NPM Adjustment <u>Millions</u>	Strategic Payment <u>Millions</u>	Strategic Share <u>Percent</u>
Actual	2000	40.787986	46.446683			0.000000	0.0000000000
Actual	2001	64.221594	78.134224			0.000000	0.0000000000
Actual	2002	0.000000	144.417783			0.000000	0.0000000000
Actual	2003	0.000000	240.733198			0.000000	0.0000000000
Actual	2004	0.000000	293.806967			0.000000	0.0000000000
Actual	2005	0.000000	353.012068	0.000000	0.000000	0.000000	0.0000000000
Actual	2006	0.000000	438.635039	0.072141	-3.004526	0.000000	0.0000000000
Forecast	2007	0.000000	561.376615	0.080386	-3.086815	0.000000	0.0000000000
Forecast	2008	0.000000	740.018443	0.090796	-3.251644	861.000000	0.010447501
Forecast	2009	0.000000	1004.773065	0.112194	-3.451062	861.000000	0.010447501

Total Settle = (Annual Payment \* ((1 + Cumulative CPI Change) \* (1 + Adjusted Vol. Change) \* (1 + PSS Reduction))  
+ Op. Income Adjustment + SPM Payment) \* Annual Share + General Tobacco + NPM Adjustment  
+ Strategic Payment \* (1 + Cumulative CPI Change) \* (1 + Adjusted Vol. Change) \* Strategic Share

GF Settle = Total Settle \* GF Allocation

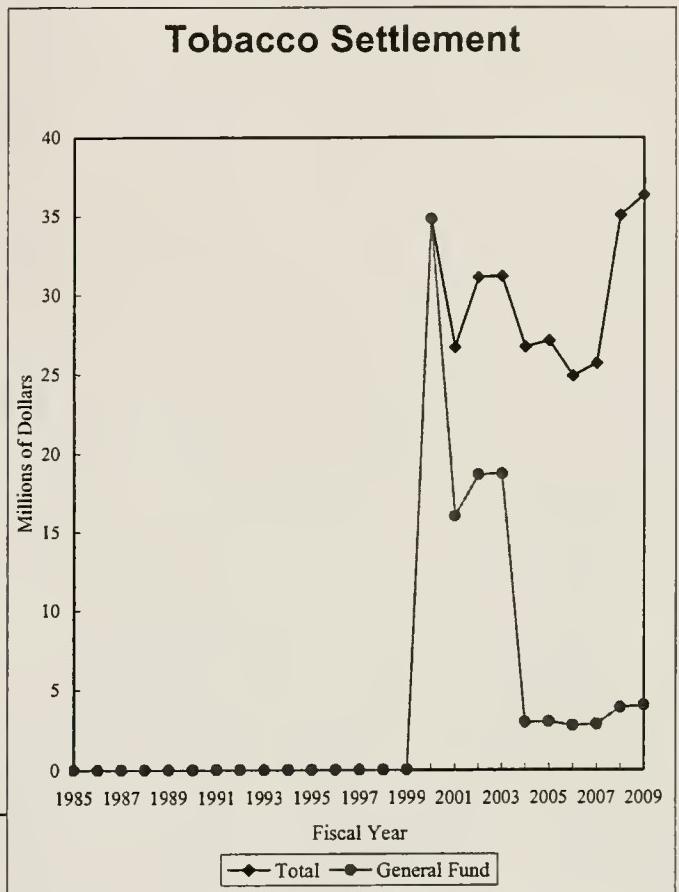
# Legislative Fiscal Division

## Revenue Estimate Profile

### Tobacco Settlement

#### Revenue Projection:

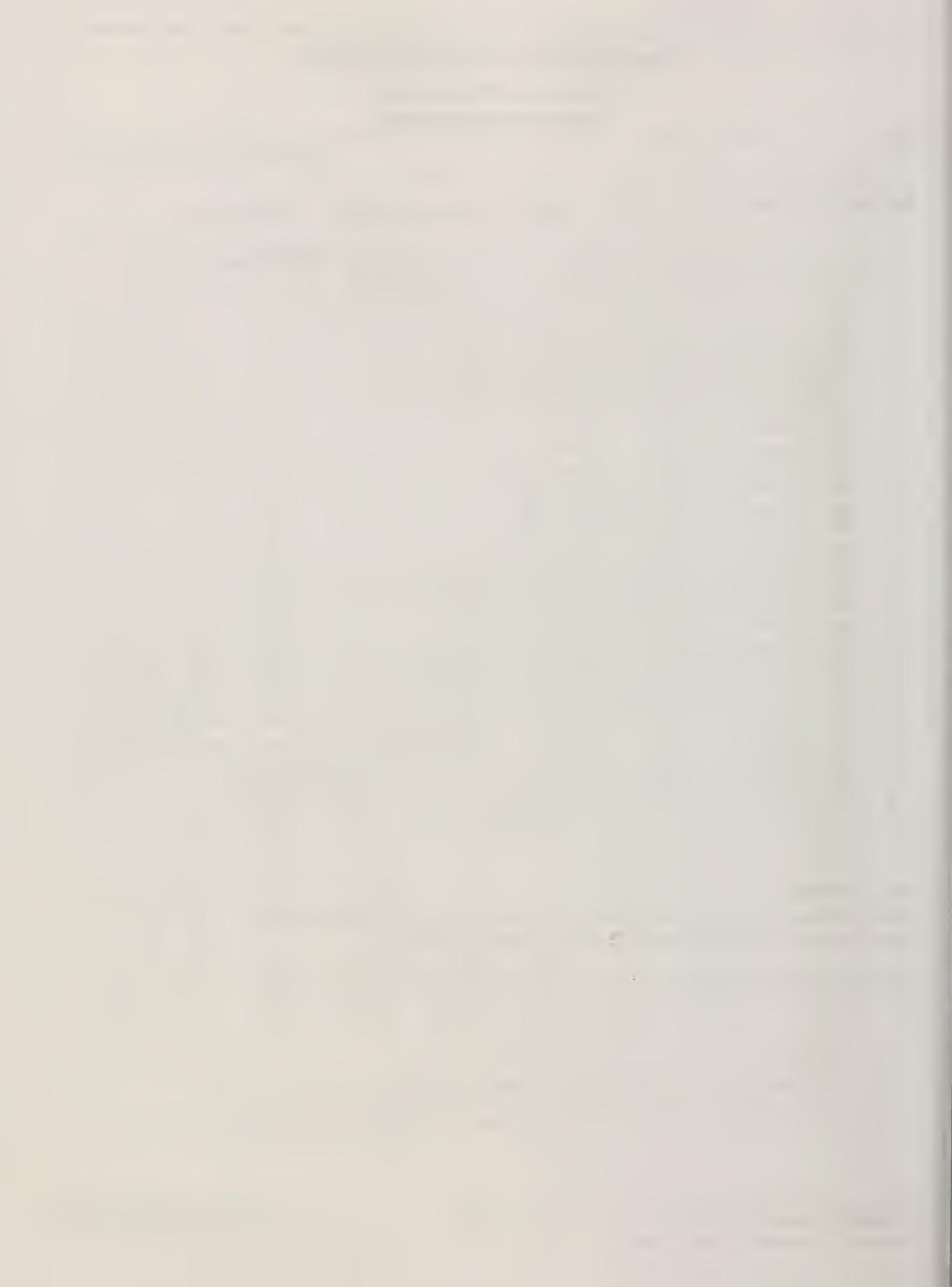
Fiscal Year	Total Collections Millions	General Fund Collections Millions	GF Percent Change
A 1985	0.000000	0.000000	Not App.
A 1986	0.000000	0.000000	Not App.
A 1987	0.000000	0.000000	Not App.
A 1988	0.000000	0.000000	Not App.
A 1989	0.000000	0.000000	Not App.
A 1990	0.000000	0.000000	Not App.
A 1991	0.000000	0.000000	Not App.
A 1992	0.000000	0.000000	Not App.
A 1993	0.000000	0.000000	Not App.
A 1994	0.000000	0.000000	Not App.
A 1995	0.000000	0.000000	Not App.
A 1996	0.000000	0.000000	Not App.
A 1997	0.000000	0.000000	Not App.
A 1998	0.000000	0.000000	Not App.
A 1999	0.000000	0.000000	Not App.
A 2000	34.804411	34.804411	Not App.
A 2001	26.639851	15.989101	-54.06%
A 2002	31.079018	18.647411	16.63%
A 2003	31.166018	18.699611	0.28%
A 2004	26.672072	2.933928	-84.31%
A 2005	27.070703	2.977777	1.49%
A 2006	24.851033	2.733614	-8.20%
F 2007	25.654000	2.822000	3.23%
F 2008	35.049000	3.855000	36.61%
F 2009	36.323000	3.996000	3.66%



#### Data Source(s):

Master Settlement Agreement (as amended), Center for Disease Control and Prevention, National Council of State Legislatures, National Association of Attorneys General, Tobacco companies' 10Q report

**Contacts:** Department of Justice



# House Joint Resolution 2





1                   JOINT RESOLUTION NO. \_\_\_\_

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2                   INTRODUCED BY \_\_\_\_\_

3                   (Primary Sponsor)

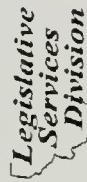
4                   BY REQUEST OF THE REVENUE AND TRANSPORTATION INTERIM COMMITTEE

5

6     A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA ESTABLISHING AN OFFICIAL  
7     ESTIMATE OF THE STATE'S ANTICIPATED GENERAL FUND REVENUE FOR FISCAL YEAR 2007 AND EACH FISCAL YEAR OF THE 2008-2009  
8     BIENNIUM FOR THE PURPOSE OF ACHIEVING A BALANCED BUDGET AS REQUIRED BY ARTICLE VIII, SECTION 9, OF THE MONTANA  
9     CONSTITUTION; ACCEPTING A PRELIMINARY JUNE 30, 2006, UNRESERVED GENERAL FUND BALANCE THAT WAS ESTABLISHED BASED ON  
10    GENERALLY ACCEPTED ACCOUNTING PRINCIPLES; ESTABLISHING OFFICIAL ESTIMATES OF CERTAIN NONGENERAL FUND REVENUE; AND  
11    REQUESTING THAT THE GOVERNOR'S OFFICE OF BUDGET AND PROGRAM PLANNING USE THE REVENUE ESTIMATES CONTAINED IN THIS  
12    RESOLUTION AS OFFICIAL REVENUE ESTIMATES FOR FISCAL YEARS 2007, 2008, AND 2009.

13

14    WHEREAS, Article VI, section 9, of the Montana Constitution requires the Governor to submit to the Legislature a budget for the ensuing fiscal  
15    period, containing in detail for all operating funds the proposed expenditures and estimated revenue of the state; and  
16    WHEREAS, Article VIII, section 9, of the Montana Constitution prohibits the Legislature from appropriating funds in excess of the anticipated  
17    revenue of the state; and  
18    WHEREAS, section 5-5-227(2), MCA, requires the Revenue and Transportation Interim Committee to estimate the amount of revenue projected  
19    to be available for legislative appropriation and to introduce a resolution setting forth the Committee's current revenue estimate; and  
20    WHEREAS, section 5-5-227(3), MCA, expresses the Legislature's intent that its revenue estimates and the underlying assumptions used to derive  
21    those estimates be used by all agencies in the development of fiscal notes; and



*Legislative  
Services  
Division*

1 WHEREAS, section 5-12-302(6), MCA, requires the Legislative Fiscal Analyst to assist the Revenue and Transportation Interim Committee in its

2 revenue estimating duties; and

3 WHEREAS, the Revenue and Transportation Interim Committee obtained the assistance of the Legislative Fiscal Analyst in the development of

4 the revenue estimates; and

5 WHEREAS, the Revenue and Transportation Interim Committee also obtained the assistance of Executive Branch agencies in the development  
6 of the revenue estimates; and

7 WHEREAS, the Revenue and Transportation Interim Committee has adopted revenue estimates and the underlying assumptions used to derive  
8 those estimates for the general fund and for specific nongeneral fund sources that are significant in the development of the state budget for fiscal year 2007  
9 and the 2008-2009 biennium; and

10 WHEREAS, section 5-5-227(3), MCA, provides that the Revenue and Transportation Interim Committee's estimate, as introduced in the Legislature,  
11 constitutes the Legislature's current revenue estimate until amended or until final adoption of the estimate by both houses; and

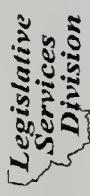
12 WHEREAS, the amount of estimated revenue and the general fund balance affects policy decisions of the Executive Branch and the Legislative  
13 Branch; and

14 WHEREAS, the revenue estimates and the underlying assumptions contained in this resolution provide the basis for a comprehensive analysis  
15 of the state's revenue condition.

16  
17 NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA:

18 That the state general fund revenue for fiscal years 2007, 2008, and 2009 be estimated to be \$1,762,355,000, \$1,797,764,000, and  
19 \$1,875,209,000, respectively.

20 BE IT FURTHER RESOLVED, that the Legislature accept for budget purposes the preliminary unreserved fiscal year 2006 fund balance of  
21 \$407,186,365 for the general fund, prepared according to generally accepted accounting principles.

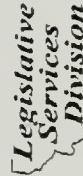


1 BE IT FURTHER RESOLVED, that the Governor's Office of Budget and Program Planning use the revenue estimates and the underlying  
2 assumptions contained in this resolution as the official revenue estimates for fiscal years 2007, 2008, and 2009.

3 **GENERAL FUND REVENUE**

4 The projections for total general fund revenue for fiscal years 2007, 2008, and 2009 are based on the assumption of a continuation of Montana  
5 law as it existed on January 1, 2007. The revenue estimates contained in the following tables are based on the assumptions listed in the tables that follow  
6 the general fund estimates and the assumptions for each general fund revenue source contained in the "Legislative Budget Analysis, 2009 Biennium,  
7 Volume 2 -- Revenue Estimates" (Revenue Estimates as adopted by the Revenue and Transportation Interim Committee) prepared by the Legislative Fiscal  
8 Division.

9	10	11	12	13	14	15	16	17	18	19	20	21
Current Law	General Fund Revenue Estimates (In Millions of Dollars)	Actual	Estimated	Source of Revenue	Individual Income Tax	Statewide and Vo-Tech Property Taxes	Corporation Income Tax	Oil and Natural Gas Production Tax	Vehicle Tax	Insurance Tax and License Fees	Video Gambling Tax	Coal Trust Interest
		FY 2006	FY 2007									
		\$768.922	\$793.847									
		177.639	189.282									
		153.675	161.057									
		92.563	86.241									
		92.097	106.473									
		58.795	60.241									
		57.277	59.871									
		31.106	29.959									



1	U.S. Mineral Royalty	29.304	28.680	31.694	29.400
2	All Other Revenue	31.867	31.542	30.877	31.550
3	Cigarette Tax	34.573	34.516	33.843	33.308
4	Tobacco Settlement	2.734	2.822	3.855	3.996
5	Treasury Cash Account Interest	18.631	27.482	21.546	21.354
6	Telecommunications Excise Tax	21.209	21.255	21.298	21.335
7	Motor Vehicle Fee	21.195	10.613	9.201	9.394
8	Public Institution Reimbursements	12.728	11.451	12.742	12.810
9	3% Accommodations Sales Tax	10.679	11.290	11.881	12.504
10	Coal Severance Tax	9.597	9.813	10.114	9.688
11	Liquor Excise and License Tax	12.709	13.639	14.573	15.551
12	Investment License Fee	5.584	6.002	6.451	6.933
13	Lottery Profits	9.110	8.345	8.838	9.414
14	Liquor Profits	7.450	7.593	8.047	8.515
15	Nursing Facilities Fee	5.712	5.814	5.781	5.752
16	Electrical Energy Tax	4.645	4.698	4.798	4.797
17	Metaliferous Mines Tax	7.028	9.048	9.613	8.867
18	Highway Patrol Fines	4.316	4.926	4.974	5.023
19	Public Contractors Tax	4.275	3.883	3.417	3.403
20	Wholesale Energy Tax	3.813	3.814	3.827	3.811
21	Tobacco Products Tax	4.360	4.401	4.385	4.406

1	Driver's License Fee	3.828	3.918	3.952	3.983
2	4% Rental Car Sales Tax	2.755	2.875	3.000	3.131
3	Railroad Car Tax	1.667	1.631	1.567	1.506
4	Wine Tax	1.624	1.705	1.798	1.892
5	Beer Tax	2.908	2.922	2.965	3.006
6	Estate Tax	1.773	0.706	0.310	0.113
7	Telephone License Tax	0.017	0.000	0.000	0.000
8	Total General Fund	\$1,708.166	\$1,762.355	\$1,797.764	\$1,875.209
9	SIGNIFICANT ASSUMPTIONS FOR GENERAL FUND REVENUE ESTIMATES				
10	Revenue and Transportation Interim Committee				
11	Year Assumption	2006	2007	2008	2009
12	<b>Individual Income Tax</b>				
13	FY Income Tax Audit Collections (Millions)	\$22.744	\$25.000	\$25.000	\$25.000
14	CY Taxpayer Population (Percent Change)	2.44%	1.41%	1.38%	1.37%
15	Income Indicators				
16	CY Wage and Salary Income (Percent Change)	9.50%	4.91%	4.00%	4.31%
17	CY Net Farm Income (Percent Change)	21.97%	14.41%	11.16%	7.40%
18	CY Interest Income (Percent Change)	7.85%	5.51%	6.80%	9.98%
19	CY Dividend Income (Percent Change)	11.19%	11.70%	10.90%	8.67%
20	CY Rent, Royalty, and Partnership Income (Percent Change)	10.12%	8.74%	9.00%	13.61%

1	CY	Net Business Income (Percent Change)	1.53%	2.26%	2.63%	2.63%
2	CY	Capital Gains and Losses (Percent Change)	0.00%	0.00%	0.00%	0.00%
3	CY	Supplemental Gains (Percent Change)	(1.58%)	(2.30%)	(2.88%)	(3.43%)
4	CY	Social Security Income (Percent Change)	11.66%	2.53%	2.55%	2.21%
5	CY	IRA Income (Percent Change)	7.22%	7.77%	5.38%	6.39%
6	CY	Pension Income (Percent Change)	7.22%	7.77%	5.38%	6.39%
7	CY	Other Income (Percent Change)	(10.79%)	(9.74%)	(8.87%)	(8.15%)
8	CY	Bond Interest (Percent Change)	(2.71%)	4.11%	(14.22%)	(11.98%)
9	CY	Federal Income Tax Refunds (Percent Change)	(38.18%)	7.44%	(0.68%)	6.10%
10	CY	Other Additions to Income (Percent Change)	0.00%	0.00%	0.00%	0.00%
11	CY	IRA Deduction (Percent Change)	7.27%	7.27%	7.27%	7.26%
12	CY	Reductions to Income (Percent Change)	8.08%	4.65%	4.88%	5.13%
13	CY	Other Reductions to Income Deductions From Income	7.00%	7.00%	7.00%	7.00%
14	CY	Medical Premiums (Percent Change)	5.53%	5.53%	5.53%	5.53%
15	CY	Medical Deductions (Percent Change)	8.05%	8.05%	8.05%	8.05%
16	CY	Real Estate Tax (Percent Change)	4.56%	4.56%	4.56%	4.56%
17	CY	Prior Year Federal Tax Payments				

1	(Percent Change)	14.48%	7.28%	1.62%	1.16%
2	CY Other Taxes (Percent Change)	6.05%	6.05%	6.05%	6.05%
3	CY Home Mortgage (Percent Change)	6.57%	6.57%	6.57%	6.57%
4	CY Contributions (Percent Change)	3.82%	2.79%	2.47%	2.23%
5	CY Gambling Losses (Percent Change)	8.34%	8.34%	8.34%	8.34%
6	CY Total Itemized Deductions (Percent Change)	8.17%	6.06%	4.41%	4.31%
7	Credits				
8					
9	CY Homeowner and Renter Credit (Millions)	\$13,132	\$13,790	\$14,447	\$15,104
10	CY All Other Credits (Percent Change)	10.11%	4.89%	11.23%	10.10%
11	Other Individual Income Tax Assumptions				
12	CY All Filers Liability (Millions)	\$725,858	\$747,347	\$776,700	\$821,352
13	CY Current Calendar Year to				
14	Fiscal Year Conversion	52.1%	52.1%	52.1%	52.1%
15	CY Previous Calendar Year to				
16	Fiscal Year Conversion	47.9%	47.9%	47.9%	47.9%
17	FY Fiscal Year 2006 Adjusted Base (Millions)	\$722,179			
18					
19	<b>Property Taxes: Taxable Value for Statewide General Fund</b>				
20	<b>Mill Levies and Other Property Tax Indicators</b>				
21	Taxable Value--40-Mill, 55-Mill, and 1.5-Mill Levies				

1	FY	Property Class One (Millions)	\$2,694	\$3,252	\$3,252	\$3,252
2	FY	Property Class Two (Millions)	\$13,045	\$21,106	\$25,177	\$28,544
3	FY	Property Class Three (Millions)	\$140,988	\$141,002	\$141,002	\$141,002
4	FY	Property Class Four (Millions)	\$1,129,794	\$1,183,821	\$1,232,950	\$1,284,117
5	FY	Property Class Five (Millions)	\$34,611	\$35,078	\$35,078	\$35,078
6	FY	Property Class Seven (Millions)	\$0.953	\$1,068	\$1,119	\$1,171
7	FY	Property Class Eight (Millions)	\$123,055	\$135,613	\$141,444	\$147,526
8	FY	Property Class Nine (Millions)	\$238,767	\$248,320	\$256,018	\$263,955
9	FY	Property Class Ten (Millions)	\$6,794	\$6,816	\$6,829	\$6,843
10	FY	Property Class Twelve (Millions)	\$44,267	\$41,577	\$39,465	\$37,460
11	FY	Property Class Thirteen (Millions)	\$122,846	\$130,476	\$138,565	\$147,156
12	FY	Total Taxable Value (Millions)	\$1,836,488	\$1,940,709	\$2,017,122	\$2,098,990
13		Other Property Tax Indicators				
14	FY	Tax Increment Finance Value (Millions)	\$25,464	\$28,830	\$27,452	\$22,679
15	FY	Property Tax Abatement Value (Millions)	\$4,137	\$18,855	\$18,855	\$18,885
16	FY	Taxable Value in 1.5-Mill Vc-Tech Counties				
17		(Millions)	\$662,811	\$693,488	\$724,926	\$757,911
18		Property Tax Nonlevy Revenue				
19	FY	40-Mill Nonlevy Revenue (Millions)	\$0,000	\$0,000	\$0,000	\$0,000
20	FY	40-Mill Adjustments (Millions)	(\$4,238)	(\$2,825)	(\$1,413)	(\$0,000)
21	FY	55-Mill Nonlevy Revenue (Millions)	\$0,000	\$9,227	\$9,350	\$8,780

1	FY	55-Mill Adjustments (Millions)	\$0.000	\$0.000	\$0.000
2	FY	1.5-Mill Nonlevy Revenue (Millions)	\$0.000	\$0.000	\$0.000
3	FY	1.5-Mill Adjustments (Millions)	\$0.000	\$0.000	\$0.000
4	<b>Vehicle Tax</b>				
5	FY	Large Trucks Growth Rate	14.93%	2.40%	2.40%
6		(Percent Change)			
7	FY	Motor Home Growth Rate (Percent Change)	25.79%	2.40%	2.40%
8	FY	Light Vehicle Growth Rate			
9		(Percent Change)			
10	FY	Boat and Snowmobile Growth Rate	36.54%	2.40%	2.40%
11		(Percent Change)			
12	FY	Manufacturer's Certificate of Origin	21.40%	2.40%	2.40%
13		Growth Rate (Percent Change)	(1.85%)	2.40%	2.40%
14	<b>Corporation License Tax</b>				
15	FY	U.S. Profits (Billions)	\$1,639.400	\$1,779.300	\$1,825.100
16	FY	Refunds (Millions)	\$0.000	(\$13.752)	(\$14,901)
17	FY	Corporate Income Tax Audits (Millions)	\$0.000	\$4,000	\$4,500
18	<b>Insurance Premiums Tax and License Fees</b>				
19	FY	General Fund Fee Revenue (Millions)	\$0.199	\$0.183	\$0.183
20	FY	Genetics Fee (Millions)	\$0.911	\$0.911	\$0.637
21	FY	Premiums Tax (Millions)	\$60,064	\$61,701	\$63,586
					\$65,529

1	FY	Offsets (Millions)	\$1.116	\$1.168	\$1.165	\$1.165
2	FY	Refunds (Millions)	\$0.353	\$0.475	\$0.475	\$0.475
3	<b>Video Gambling Tax</b>					
4	FY	Video Machine Net Income (Millions)	\$378.828	\$399.142	\$424.324	\$450.975
5	<b>Motor Vehicle Fee--General Fund Allocations</b>					
6	FY	Motor Vehicle Registration Fee (Millions)	\$12.085	\$0.000	\$0.000	\$0.000
7	FY	Recording of Liens Fee (Millions)	\$0.688	\$0.705	\$0.722	\$0.739
8	FY	Title Fee (Millions)	\$2.369	\$2.426	\$2.484	\$2.544
9	FY	Personal License Plate Fee (Millions)	\$1.418	\$1.452	\$1.487	\$1.523
10	FY	New License Plate Fee (Millions)	\$2.866	\$3.980	\$2.409	\$2.439
11	FY	Senior Citizen Transit Fee (Millions)	\$0.203	\$0.207	\$0.212	\$0.218
12	FY	Other Fees (Millions)	\$1.567	\$1.605	\$1.643	\$1.683
13						
14	<b>U.S. Mineral Royalty</b>					
15	CY	Oil Production (Millions of Barrels)	4.256	4.256	4.256	4.256
16	CY	Coal Production (Millions of Tons)	23.358	25.236	27.270	21.604
17	CY	Natural Gas Production (MMCF)	28.194	30.221	32.394	34.724
18	CY	Oil Price (Per Barrel)	\$55.880	\$55.086	\$55.050	\$54.101
19	CY	Coal Price (Per Ton)	\$10.022	\$10.022	\$10.022	\$10.022
20	CY	Natural Gas Price (Per MCF)	\$5.565	\$5.488	\$6.655	\$6.451
21	CY	Oil Royalty Rate (Percent)	11.45%	11.45%	11.45%	11.45%

1	CY	Coal Royalty Rate (Percent)	11.98%	11.98%	11.98%	11.98%
2	CY	Natural Gas Royalty Rate (Percent)	11.93%	11.93%	11.93%	11.93%
3	CY	Other Royalties (Millions)	\$5.522	\$5.664	\$6.558	\$6.684
4	CY	Rent and Bonus (Millions)	\$5.169	\$5.169	\$5.169	\$5.169
5	<b>Telecommunications Excise Tax</b>					
6	FY	Taxable Gross Receipts (Millions)	\$565.572	\$566.788	\$567.927	\$568.912
7	<b>Tobacco Settlement</b>					
8	FY	Volume Change (Percent Change)	(2.07%)	(2.07%)	(2.07%)	(2.07%)
9	FY	Cumulative Volume Change (Percent Change)	(30.18%)	(31.62%)	(33.03%)	(34.42%)
10	FY	CPI Change (Percent Change)	3.42%	3.00%	3.00%	3.00%
11	FY	Cumulative CPI Change (Percent Change)	24.25%	27.98%	31.82%	35.78%
12	FY	Operating Income Adjustment (Millions)	\$0.000	\$0.000	\$0.000	\$0.000
13	FY	Subsequent Manufacturers' Payment (Millions)	\$438.635	\$561.377	\$740.018	\$1,004.773
14	FY	Nonparticipating Manufacturers' Adjustment (Millions)	(\$3.005)	(\$3.087)	(\$3.252)	(\$3.451)
15	<b>Public Institution Reimbursements</b>					
16	FY	Private Payments (Millions)	\$1.535	\$2.040	\$2.245	\$2.272
17	FY	Insurance Payments (Millions)	\$0.284	\$0.481	\$0.483	\$0.481
18	FY	Medicaid Payments (Millions)	\$9.531	\$9.928	\$10.809	\$10.857

1	FY	Medicare Payments (Millions)	\$1,274	\$1,594	\$1,599	\$1,594
2	FY	Debt Service MT Developmental Center (Millions)	(\$0.951)	(\$1.015)	(\$1.017)	(\$1.017)
3	FY	Debt Service MT State Hospital (Millions)	(\$1.775)	(\$1.909)	(\$1.908)	(\$1.910)
4	FY	Adjustments (Millions)	\$0.000	\$0.000	\$0.200	\$0.200
5	FY	<b>Estate Tax</b>				
6	FY	Annual Change in Tax (Percent Change)	(57.69%)	(60.17%)	(56.07%)	(63.44%)
7	FY	<b>Oil Production Tax</b>				
8	CY	Oil Production (Million Barrels)	34,827	38,159	36,425	32,354
9	CY	Montana Oil Price (Weighted Price/Barrel)	\$53,017	\$53,148	\$51,979	\$51,452
10	CY	Effective Tax Rate (Percent)	7.67%	8.00%	8.83%	10.03%
11	CY	<b>Natural Gas Production Tax</b>				
12	CY	Natural Gas Production (MMCF)	107,258	106,687	104,476	99,981
13	CY	Montana Natural Gas Price (Weighted Price/MMCF)	\$5.29	\$6.85	\$7.26	\$6.96
14	CY	Effective Tax Rate (Percent)	7.70%	7.90%	8.10%	8.47%
15	CY	<b>Treasury Cash Account Interest</b>				
16	FY	TCA Average Balance w/TRANS (Millions)	\$542,420	\$588,605	\$468,605	\$468,605
17	FY	TCA Average Yield (Percent)	3.61%	4.67%	4.60%	4.56%

1	FY	TRANS Issue Size (Millions)	\$0.000	\$0.000	\$0.000	\$0.000
2		<b>Liquor Excise and License Tax</b>				
3	FY	Gross Sales (Millions)	\$66,600	\$71,439	\$76,351	\$81,492
4	FY	Tribal Distributions (Millions)	(\$0,242)	(\$0,256)	(\$0,277)	(\$0,299)
5		<b>Coal Severance Tax</b>				
6	CY	Severance Tax Coal Production (Million Tons)	35,173	37,018	38,117	34,706
7		Montana Contract Sales Price (Weighted CSP/Ton)				
8	CY		\$6,849	\$6,747	\$6,713	\$6,585
9						
10		<b>Cigarette Tax</b>				
11	FY	Cigarette Packs (Millions)	48,336	47,580	46,835	46,102
12	FY	Effective Tax Rate Per Pack (Dollars)	\$1.70	\$1.70	\$1.70	\$1.70
13	FY	Tribal Distribution (Millions)	(\$3,522)	(\$3,528)	(\$3,766)	(\$3,719)
14		<b>Lottery Profits</b>				
15	FY	Total Lottery Sales (Millions)	\$39,918	\$37,231	\$38,348	\$39,489
16	FY	Lottery Interest Earnings (Millions)	\$0,200	\$0,199	\$0,208	\$0,219
17	FY	Other Revenue (Millions)	\$0,011	\$0,011	\$0,011	\$0,011
18	FY	Lottery Operating Budget (Millions)	\$7,962	\$7,593	\$7,580	\$7,497
19	FY	Lottery Prizes and Commissions (Millions)	\$23,056	\$21,504	\$22,149	\$22,808
20						
21		<b>Nursing Facilities Fee</b>				

1	FY	Bed Days (Millions)	1.980	1.983	1.971	1.960
2	FY	Intermediate Care Revenue (Millions)	\$14.954	\$15.044	\$15.135	\$15.226
3	<b>Liquor Profits</b>					
4	FY	Gross Liquor Sales (Millions)	\$83.916	\$90.013	\$96.202	\$102.680
5	FY	Cost of Goods Sold (Millions)	\$47.324	\$51.247	\$54.960	\$58.842
6	FY	Liquor Discounts and Commissions (Millions)	\$10.148	\$10.885	\$11.634	\$12.417
7						
8	FY	Liquor Operating Costs (Millions)	\$1.676	\$1.732	\$1.729	\$1.736
9	FY	Other Income (Millions)	\$0.019	\$0.019	\$0.019	\$0.019
10	<b>Investment License Fee</b>					
11	FY	License Registration (Percent Change)	7.55%	7.48%	7.48%	7.48%
12	FY	Portfolio Growth (Percent Change)	13.27%	10.19%	10.19%	10.19%
13	FY	Expense Growth (Percent Change)	(5.22%)	29.13%	0.77%	(0.34%)
14	<b>Electrical Energy Tax</b>					
15	FY	Kilowatt Hours Produced (Millions)	23,516.213	23,490.774	23,989.247	23,981.800
16	<b>Highway Patrol Fines</b>					
17	FY	Highway Patrol Fines (Percent Change)	(0.55%)	14.13%	0.98%	0.98%
18	<b>Metaliferous Mines Tax</b>					
19	CY	Copper Production (Million lb)	86.012	94.667	94.754	94.887
20	CY	Silver Production (Million oz)	2.175	3.654	3.686	3.022
21	CY	Gold Production (Million oz)	0.130	0.274	0.213	0.015

1	CY	Lead Production (Million lb)	1.196	17.728	18.764	0.000
2	CY	Zinc Production (Million lb)	3.084	48.144	54.614	0.000
3	CY	Molybdenum Production (Million lb)			Not disclosed, confidential information	
4	CY	Palladium Production (Million oz)			Not disclosed, confidential information	
5	CY	Platinum Production (Million oz)			Not disclosed, confidential information	
6	CY	Nickel Production (Million lb)			Not disclosed, confidential information	
7	CY	Rhodium Production (Million oz)	1.738	1.156	1.327	1.452
8	CY	Sapphire Production (Million oz)		0.000	0.000	0.000
9	CY	Copper Sulfide Production (Million lb)		0.000	0.000	0.000
10	CY	Copper Price (Per lb)		\$3.000	\$2.788	\$2.622
11	CY	Silver Price (Per oz)		\$11.500	\$11.951	\$12.101
12	CY	Gold Price (Per oz)		\$590.000	\$623.740	\$656.496
13	CY	Lead Price (Per lb)		\$0.450	\$0.450	\$0.450
14	CY	Zinc Price (Per lb)		\$0.660	\$0.660	\$0.660
15	CY	Molybdenum Price (Per lb)			Not disclosed, confidential information	
16	CY	Palladium Price (Per oz)			Not disclosed, confidential information	
17	CY	Platinum Price (Per oz)		\$5.960	\$5.960	\$5.960
18	CY	Nickel Price (Per lb)			Not disclosed, confidential information	
19	CY	Rhodium Price (Per oz)				
20	CY	Sapphire Price (Per oz)		\$0.000	\$0.000	\$0.000
21	CY	Copper Sulfide Price (Per lb)		\$0.000	\$0.000	\$0.000

1	FY	Effective Tax Rate (Percent)	1.70%	1.70%	1.70%
2	<b>Public Contractors Tax</b>				
3	FY	Tax Before Credits (Millions)	\$6.158	\$6.171	\$5.762
4	FY	Credits and Refunds (Millions)	\$1.883	\$2.288	\$2.345
5	<b>Wholesale Energy Tax</b>				
6	FY	Kilowatt Hours (Millions)	24,870.822	26,225.181	26,314.340
7	FY	Credits for Taxes Paid (Millions)	\$0.000	\$0.000	\$0.000
8	<b>Beer Tax</b>				
9	FY	Beer Barrels (Millions)	0.925	0.929	0.942
10	FY	Tribal Distribution (Millions)	(\$0.059)	(\$0.059)	(\$0.059)
11	FY	Effective Tax Rate (Percent)	4.18%	4.18%	4.18%
12	<b>Driver's License Fees</b>				
13	FY	Driver's License Fees (Millions)	\$3.142	\$3.174	\$3.204
14	FY	Duplicate License Fees (Millions)	\$0.316	\$0.320	\$0.323
15	FY	Motorcycle Endorsement Fees (Millions)	\$0.012	\$0.012	\$0.013
16	FY	Commercial Vehicle			
17		Endorsement (Millions)	\$0.353	\$0.353	\$0.353
18	<b>Tobacco Tax</b>				
19	FY	Value of Tobacco Products (Millions)	\$5.697	\$5.850	\$5.974
20	FY	Snuff Ounces (Millions)	7.982	7.982	7.982
21	FY	Tribal Distribution (Millions)	(\$0.399)	(\$0.334)	(\$0.424)

1	<b>Railroad Car Tax</b>					
2	CY Total MT Market Value of Fleets					
3	(Millions)					
4	CY Taxable Value Rate (Percent)	\$89.056	\$89.064	\$89.064	\$89.064	\$89.064
5	CY 95% of Industrial and	3.74%	3.55%	3.37%	3.37%	3.20%
6	Commercial Mill Levy	509,510	515,710	521,990	528,340	

**7 Wine Tax**

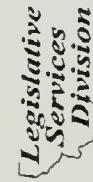
8	FY Wine Liters (Millions)	8,880	9,328	9,838	10,349	
9	FY Tribal Distribution (Millions)	(\$0.031)	(\$0.033)	(\$0.035)	(\$0.037)	

**SELECTED NONGENERAL FUND REVENUE**

- 10
- 11 The projections for selected nongeneral fund revenue for fiscal year 2007 and the 2008-2009 biennium are based on the assumption of a  
 12 continuation of Montana law as it existed on January 1, 2007. The revenue estimates contained in the following table are based on the assumptions listed  
 13 in the tables that follow the nongeneral fund estimates and the assumptions for each nongeneral fund revenue source contained in the "Legislative Budget  
 14 Analysis, 2009 Biennium, Volume 2 -- Revenue Estimates" (Revenue Estimates as adopted by the Revenue and Transportation Interim Committee)  
 15 prepared by the Legislative Fiscal Division.

**16 Current Law****17 Selected Nongeneral Fund Revenue Estimates**

(In Millions of Dollars)						
		Actual	Estimated	Estimated	Estimated	
18						
19	Source of Revenue					
20		FY 2006	FY 2007	FY 2008	FY 2009	
21	Gasoline Tax	\$131,465	\$132,000	\$132,538	\$133,077	



*Legislative  
Services  
Division*

1	Diesel Tax	67.780	71.324	75.032	78.933
2	Common School Interest and Income	82.606	75.414	77.794	77.049
3	GVW and Other Fees	28.916	28.693	28.497	28.982
4	Federal Forest Receipts	12.800	13.006	13.148	13.282
5	6-Mill Property Tax	11.952	12.505	12.971	13.359
6	Resource Indemnity Trust Interest	5.916	5.645	5.646	5.658
7	Treasure State Endowment Trust Interest	8.039	8.434	8.950	9.489
8	Gasoline Storage Tank Tax	3.727	3.742	3.757	3.773
9	Resource Indemnity Trust and Ground Water Assessment Tax	1.456	1.307	1.335	1.290
10	Diesel Storage Tank Tax	2.815	2.961	3.115	3.277
11	Parks Trust Interest Earnings	0.972	0.983	1.009	1.036
12	Capital Land Grant Interest and Income	1.590	1.072	1.157	1.217
13	Tobacco Trust Interest Earnings	3.388	3.939	4.567	5.413
14	Regional Water Trust Interest Earnings	1.527	1.823	2.082	2.348
15	Economic Development Trust Interest Earnings	1.194	1.455	1.716	1.982
16	Pine Hills Interest and Income	0.397	0.387	0.389	0.391
17	Cultural Trust Interest Earnings	0.447	0.483	0.496	0.510
18	Deaf and Blind Trust Interest and Income	0.291	0.284	0.286	0.287
19	Total Nongeneral Fund	\$367.275	\$365.457	\$374.485	\$381.353
20	SELECTED ASSUMPTIONS FOR NONGENERAL FUND REVENUE ESTIMATES				
21	Revenue and Transportation Interim Committee				

	1 Year Assumption	2006	2007	2008	2009
<b>2 Gasoline Tax</b>					
3 FY Taxable Gallons of Gasoline (Millions)		501.029	503.070	505.119	507.177
4 FY Taxable Gallons of Gasoline--					
5 Storage Tank Cleanup (Millions)		496.919	498.943	500.976	503.016
6 FY Refunds (Millions)		(\$2.460)	(\$2.470)	(\$2.481)	(\$2.491)
7 FY Tribal Distribution (Millions)		(\$3.785)	(\$3.800)	(\$3.816)	(\$3.831)
8 FY Alcohol Incentive (Millions)		\$0.000	\$0.000	\$0.000	\$0.000
<b>9 Diesel Tax</b>					
10 FY Taxable Gallons of Diesel (Millions)		261.906	275.602	289.930	305.003
11 FY Taxable Gallons of Diesel--					
12 Storage Tank Cleanup (Millions)		375.269	394.778	415.302	436.893
13 FY Refunds (Millions)		(\$4.172)	(\$4.390)	(\$4.619)	(\$4.859)
<b>14 GVW Fees</b>					
15 FY GVW Fees (Millions)		\$8.555	\$8.686	\$8.820	\$8.955
16 FY Form 3 GVW Fees (Millions)		\$1.059	\$1.059	\$1.059	\$1.059
17 FY Trip Permit Fees (Millions)		\$0.542	\$0.542	\$0.542	\$0.542
18 FY County GVW Fees (Millions)		\$10.243	\$10.400	\$10.560	\$10.722
19 FY Overweight Trip Permit Fees (Millions)		\$2.646	\$2.751	\$2.861	\$2.975
20 FY Special Permit Fees (Millions)		\$1.104	\$1.161	\$1.230	\$1.303
21 FY Temporary Fuel Permits (Millions)		\$0.118	\$0.111	\$0.111	\$0.112

1	FY	Other Fees (Millions)	\$3.314	\$3.314	\$3.314	\$3.314
<b>2 6-Mill Levy Property Tax Indicators (See General Fund Property</b>						
3	Tax Assumptions for Other Detail)					
4	FY	Taxable Value (Millions)	\$1,861.952	\$1,969.539	\$2,044.574	\$2,121.669
5	FY	Nonlevy Revenue (Millions)	\$0.000	\$0.688	\$0.704	\$0.629
6	FY	6-Mill Adjustments (Millions)	\$0.000	\$0.000	\$0.000	\$0.000
7			- END -			



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